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THESIS

**MADE IN CHINA: POLICY ANALYSIS AND PRESCRIPTIONS
TO IMPROVE CHINA'S CONSUMER PRODUCT SAFETY
REGULATORY REGIME**

by

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December 2008

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**MADE IN CHINA: POLICY ANALYSIS AND PRESCRIPTIONS TO
IMPROVE CHINA'S CONSUMER PRODUCT SAFETY REGULATORY
REGIME**

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ABSTRACT

If it's "Made in China," would you still buy it? This question has recently taken on particular significance in the wake of a series of scandalous oversights regarding the safety of consumer products manufactured in China. If this trend continues it could damage the sales of Chinese produced goods in the international market place. While, it may appear to be a relatively minor issue in the context of China's overall political economy generally, and its dramatic economic growth of the past few decades more particularly, if it is not addressed the consequences could actually be quite serious. If this issue on its own, or in combination with other problems, drastically undermined China's economic growth, the ruling Chinese Communist Party might find itself facing increased domestic instability. Domestic instability in China could in turn contribute to regional instability in Northeast and Southeast Asia. In this context, this thesis outlines realistic policy options that the Chinese government could implement to both address consumer product safety in the future and mitigate contemporary concerns following the recent bout of consumer product safety lapses. More broadly, this thesis moves beyond simply laying out policy prescriptions and presents a new institutional arrangement that if implemented would prevent future product safety problems. It provides a policy framework that if followed would effectively address international and domestic concerns with respect to the quality and safety of Chinese products. Figure 1 provides a succinct summary of the thesis and its relevance to a neglected, but endemic problem.

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EXECUTIVE SUMMARY

China's central government's response to the current challenge of consumer product safety in the food and drug arena could be a determining factor in its ability to sustain robust economic growth over the next decade. Numerous policy prescriptions and an overall framework are proposed here to strengthen China's institutional weakness in relation to the oversight of consumer product safety. However, three measures in particular have the ability to strike at the heart of the consumer product safety dilemma and restore consumer faith in the "Made in China" brand. First, China must stem corruption at the local level by introducing independent regulatory and law enforcement agencies that hold local government leaders and companies accountable.¹ Second, China must permit greater freedom of the press because the media can act as a force multiplier to expose systemic problems of corruption that relate to consumer product safety issues. Finally, China must create an independent judicial system that consistently holds government officials and companies that intentionally violate product safety laws accountable. The implementation of these measures would change the political economy of China at many levels. Their full-scale application would break deeply entrenched patterns of behavior by Chinese Communist Party officials and Chinese companies. Change will not be easy; however, it is necessary in order to maintain economic growth and political stability in China in the medium-term.

¹ Wayne M. Morrison, "China-U.S. Trade Issues," in *CRS Report for Congress* (Washington, D.C.: Congressional Research Service, March 7, 2008), 10.

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I. INTRODUCTION

A. RESEARCH QUESTION

How should the Chinese government respond in order to improve China's consumer product safety regime with respect to food and drugs, so that the Chinese government can protect the country's export driven economic growth and retain, or strengthen the confidence of consumers world-wide?

1. If It's "Made in China," Would You Still Buy It?

The phrase – "Made in China" – has for many years meant acceptable consumer goods that are manufactured at a low cost to American producers and consumers; however, "Made in China" has more recently been linked to scandalous oversights with respect to consumer product safety. If the trend continues, it could damage the sales of Chinese produced goods in the international market place. Although no American consumers have died because of food or drug related consumer safety lapses to date, some domestic (Chinese) consumers, especially infants, have died.² Unless changes are made to China's product safety regime many more domestic and international consumers are likely to fall ill or die. The quality and safety of food and drugs produced in China remains one of the primary concerns of international consumers, companies, and lawmakers. A recent Congressional Research Service report to the United States congress summarizes the growing concern surrounding Chinese food and drug imports. The report notes that global consumers suffer from dangerous Chinese products that range from

² Wayne M. Morrison, "Health and Safety Concerns over U.S. Imports of Chinese Products: An Overview," in *CRS Report for Congress* (Washington, D.C.: Congressional Research Service, August 28, 2007), 4.

melamine tainted pet food, unsafe seafood, and counterfeit toothpaste.³ Furthermore, according to the China National Food Industry Association, “Food is China’s biggest industry”. Output for 2006 was calculated to be worth 315.8 billion U.S. dollars (2.4 trillion Yuan).⁴ In light of numerous product safety incidents and the economic significance of food safety and quality, the Chinese government, which initially dismissed many of the claims as protectionist measures, has been compelled to respond in order to protect foreign trade, which has been the lifeblood of China’s economic growth.⁵

2. Research Question

How should the Chinese government respond in order to improve China’s consumer product safety regime with respect to food and drugs, so that the Chinese government can protect the country’s export driven economic growth and its large international market, which includes a large number of U.S. consumers?

³ Morrison, "Health and Safety Concerns over U.S. Imports of Chinese Products: An Overview," 1. Morrison notes: “The [United States] Food and Drug Administration (FDA) in March 2007 issued warnings and announced voluntary recalls on certain pet foods (or products such as rice protein concentrate and wheat gluten used to manufacture pet food and animal feed) from China believed to have caused the sickness and deaths of numerous pets in the United States. In May 2007, the FDA issued warnings on certain toothpaste products (some of which were found to be counterfeit) found to originate in China that contained poisonous chemicals. In June 2007, the FDA announced import controls on all farm-raised catfish, bass, shrimp, dace (related to carp), and eel from China after antimicrobial agents, which are not approved in the United States for use in farm-raised aquatic animals, were found. Such shipments will be detained until they are proven to be free of contaminants.”

⁴ Wu Chen and Wu Qiong, "China: En Route to Better Food Safety," *Xinhua* 16 September 2007.

⁵ "Stoking Protectionism: Substandard Exports from China Provoke Protectionist Responses," in *The Economist* (The Economist Intelligence Unit, 16 August 2007).

B. LITERATURE/POLICY REVIEW

1. Areas of Scholarly/Policy Consensus

In order to protect the “Made in China” brand from further damage, most policy makers agree that the Chinese government has to respond with better laws to regulate the production and recall of consumer products. It needs to engage in a vigorous effort to enforce new and existing consumer product laws and improve inspection to ensure the quality of goods for both export and domestic consumption.⁶ In order to address these issues, Chinese government officials, manufacturers, and regulatory agencies recently met to discuss product safety. Xinhua (New China News Agency) reports that the meeting sought to establish clear product safety guidelines that would assist with sustained economic growth for China.⁷ As a result, on July 27, 2007, the Chinese National Quality Control Conference in Beijing reached a consensus on principles that should define an improved product safety regulatory and enforcement regime in China.⁸ Consensus at the conference led to cooperation among domestic policy makers in the

⁶ Morrison, "Health and Safety Concerns over U.S. Imports of Chinese Products: An Overview." – This recent report to the United States Congress states: “China is believed to have a rather weak health and safety regime for manufactured goods and agricultural products. Problems include weak consumer protection laws and poorly enforced regulations, lack of inspections and ineffective penalties for code violators, underfunded and understaffed regulatory agencies and poor interagency cooperation, the proliferation of fake goods and ingredients, the existence of numerous unlicensed producers, falsified export documents, extensive pollution, intense competition that often induces firms to cut corners, the relative absence of consumer protection advocacy groups, failure by Chinese companies to effectively monitor the quality of their suppliers’ products, restrictions on the media, and extensive government corruption and lack of accountability, especially at the local government level.”

⁷ "Beijing Launches Massive Checkup for Product Quality, Food Safety," *Xinhua* 3 September 2007. Xinhua notes: “The meeting’s main agenda was: profoundly implementing the scientific development concept, [to] study and analyze the new situation facing product quality, [to] set clear guidelines for quality control in the days to come and [to] take powerful measures for improving the overall quality of Chinese products so as to ensure a good and rapid national economic growth (sic).”

⁸ "China's Wen Jiabao, Wu Yi Address National Conference on Product Safety," *Xinhua* 27 July 2007. – “Wen Jiabao, [member of the CCP Central Committee Political Bureau Standing Committee and premiere of the State Council], pointed out: Product quality has a close bearing on the people’s vital interests, on businesses’ survival and development, and on the image of the country.” Furthermore, “Wen Jiabao put forth the following six requirements to be met today and in the days to come: (1) Tightening up quality control in all areas... (2) Speeding up the formulation of standards for product quality... (3) Improving product quality from the source... (4) Formulating stronger laws for ensuring product quality... (5) Pooling efforts to launch a special drive to control product quality... (6) Tightening up the management of public opinion and information.”

development of a new recall and food monitoring system to guard against tainted products. In fact, the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), China's quality watchdog, announced the first recall system for unsafe food and toys on 31 August 2007.⁹

In addition to the recall system, the Ministry of Agriculture (MOA) expanded food labeling requirements and directed the establishment of a new food-tracking and monitoring system to support food safety during the 2008 Olympics.¹⁰ Yifen Wang, a biosystems engineer at Auburn University, underlined the importance of the success of China's food safety system during the Beijing Olympics. Wang noted that Beijing had to provide nearly 600 tons of food for at least 32,000 athletes and journalist in addition to an unknown number of Olympic spectators from across the globe.¹¹ In the wake of the Beijing Summer Olympics, no major reports of food contamination or food borne illness have surfaced. However, despite the ostensible commitment on the part of the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), and the Ministry of Agriculture (MOA) to improve product safety, their contributions will be slight unless Chinese governmental officials and regulators continue to enforce the new laws, now that the international spotlight associated with the 2008 Olympics has moved on.

Both domestic and international policy makers agree that the major obstacle to improving product safety lies in the lack of ability and willingness of local level Chinese regulators and government officials to enforce the law. In many cases local level officials

⁹ "Beijing Launches Massive Checkup for Product Quality, Food Safety."

¹⁰ "Product-Quality Scandals Persist," in *The Economist* (The Economist Intelligence Unit, 6 September 2007).

¹¹ Jamie Creamer and Charles Martin, "Auburn University Professor Helps Ensure Food Safety for Olympics," <http://wireeagle.auburn.edu/news/409>. (accessed September 2008). Wang noted in the interview: "With more than 10,000 athletes and 22,000-plus international journalist in Beijing, China, for the 2008 Summer Olympic Games [food safety was a paramount concern for the Chinese government]...The volume of food [prepared] for the Olympic Village and for the concession [included] 330 tons of fruits and vegetables, 130 tons of meat, 82 tons of seafood, 21 tons of cheese and 19 tons of eggs...There [was] great pressure on [the Beijing Municipal Food Safety Committee and the Beijing Organizing Committee for the 2008 Olympic Games] to ensure that all foods that [entered] the athletes' village, media villages, main press center and international broadcasting center at the games are safe."

own a portion of the same companies that they are supposed to be regulating and monitoring. Obviously, this creates a conflict of interest. As *The Economist* has noted, “Unhealthy links between government and business, combined with patchy implementation of rules and regulations, mean that China has a political culture that will be hard to transform quickly.”¹²

In addition to poor cooperation and enforcement at the local government level, China must also contend with under-staffed and under-funded oversight national agencies that have shown little ability to coordinate their activities in the effort to improve product safety in China.¹³ There is a pronounced lack of coordination between China’s Ministry of Agriculture (MOA), the Ministry of Health (MOH), the State Administration for Industry and Commerce (SAIC), the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), and the State Food and Drug Administration (SFDA).¹⁴ The continued lack of interagency cooperation on product safety issues in China could potentially lead to far more devastating effects than the problems that surfaced inside and outside the country in 2007.

Against the backdrop of this interagency dilemma, China has already set aside additional funds and created a task force to assist in domestic interagency cooperation to promote product safety and protect the “Made in China” label. In July 2007 the Chinese central government appointed Vice Premier Wu Yi, who skillfully handled the Severe Acute Respiratory Syndrome (SARS) outbreak in 2003, to head a food safety and product quality task force aimed at restoring the Chinese brand image.¹⁵ Additionally, the central government reports that it plans to spend approximately “\$1.1 billion to improve food

¹² "Stoking Protectionism: Substandard Exports from China Provoke Protectionist Responses."

¹³ David Barboza, "China in Public Relations Offensive for Products," *The International Herald Tribune* 6 September 2007, John Gapper, "China Pledges to Raise Safety Standards," *Financial Times* 31 August 2007, Morrison, "Health and Safety Concerns over U.S. Imports of Chinese Products: An Overview."

¹⁴ Chen and Qiong, "China: En Route to Better Food Safety.", Morrison, "Health and Safety Concerns over U.S. Imports of Chinese Products: An Overview."

¹⁵ "Product-Quality Scandals Persist."

and drug safety supervision by 2010.”¹⁶ Both measures will help to resolve the problems that plague China’s consumer product safety regulatory regime.

In addition to domestic cooperation, China has sought international cooperation in its attempt to resolve the current consumer product safety crisis. China’s President Hu and the United States’ President Bush recently agreed to support one another through international interagency cooperation in order to protect trade and improve the safety of Chinese exported goods.¹⁷ Even before the two leaders met, international interagency cooperation had already begun. As recently as August 2, 2007, representatives of the United States’ Food and Drug Administration were in China conducting high-level talks about food and drug safety with their Chinese counterparts.¹⁸

In summary, the areas of policy consensus on China’s product safety regime among domestic and international policy makers include the following:

- China must adopt regulatory measures and standards that promote product safety.
- China must enforce these measures at all levels despite the corruption and poor oversight practices of local level Chinese officials.
- China’s national oversight agencies must be properly funded and coordinated in order to monitor compliance among China’s large number of producers.
- International interagency cooperation must continue in order to assist China in its effort to quickly improve the consumer product safety regime of its rapidly growing, export-driven economy.

¹⁶ David Barboza, "China Acts to Cleanse Reputation," *The New York Times* 5 September 2007.

¹⁷ Dana Perino, "White House Press Briefing by Deputy Press Secretary Dana Perino," (Sydney, Australia: White House, 6 September 2007). - "President Hu raised the issue of product safety [during a recent economic conference in Sydney, Australia with President Bush], explaining that the Chinese government took this problem seriously. [President Hu] (He) explained that it related to health and safety of Chinese consumers, as well as those in export markets. The two leaders, [President Hu and President Bush], discussed new interagency structures of China, revisions to their laws and regulations, and enhanced enforcement and inspections being undertaken by China. President Bush welcomed these developments, explained the U.S. concerns on safety, underscoring that the safety issue was not trade protectionism, and that both sides needed to continue to work together. President Hu expressed his welcome for expanded cooperation on the safety issue."

¹⁸ Ariana Eunjung Cha, "A Tough Trek toward Common Ground in China; Paulson Sets out to Ease Tension by Sticking to Areas of Agreement," *The Washington Post* 2 August 2007.

2. Areas of Scholarly/Policy Debate

Despite a policy consensus on many product safety issues at the domestic and international level, there is an ever-widening gulf between policy makers at the international level over protectionism that masquerades as international concern for Chinese product safety and media sensationalism that targets China.

On the issue of protectionism, protecting domestic industries from foreign competition, Chinese government officials, specifically the Assistant Minister of Commerce Wang Chao, charged that some United States government officials are exploiting and sensationalizing the recent export safety scandals to protect American companies from competition by Chinese producers.¹⁹ However, President Bush dismissed the idea that the United States concern with the product safety of Chinese goods had anything to do with protectionism.²⁰ Nevertheless, as *The Economist* observed, "China has historically tended to regard 'quality'-related bans and restrictions as a form of non-tariff protectionism."²¹ Admittedly, the United States Congress has recently passed several measures and amendments to protect Americans from tainted food and drug products, yet these measures make it more difficult and expensive for Chinese

¹⁹ "Stoking Protectionism; Substandard Exports from China Provoke Protectionist Responses.", Ken DeWoskin, "The 'Made in China' Stigma Shock," *Far Eastern Economic Review* 170, no. 7 (2007): 11, "Protectionism," Britannica, <http://www.britannica.com/eb/article-9061595/protectionism>. (accessed September 2008)

²⁰ Perino, "White House Press Briefing by Deputy Press Secretary Dana Perino."

²¹ "Stoking Protectionism: Substandard Exports from China Provoke Protectionist Responses."

exporters to get their products to the United States' market.²² If the debate over protectionism cannot be resolved amicably, miscalculations by both governments could lead to a protectionist trade war, "which could mean further bans on U.S. products on spurious "health" or "quality" grounds."²³ A Sino-U.S. trade war could devastate the global economy that has grown increasingly dependent on China over the last decade.

Further aggravating cooperative efforts on product safety reform between China and other governments is China's belief that the foreign media has sensationalized the lapses in China's product safety regime. *The Economist* reported that "As the [product safety] crisis unfolded, China's first instinct" was "to issue denials, and to claim that the product-safety issue has been whipped up out of proportion by the foreign media."²⁴ However, there was nothing sensational about the reporting of the death of 50 to 60 infants from fake baby formula, 11 people from toxic gall bladder treatments, and seven from defective antibiotic drugs was an indictment of China's consumer product safety regime.²⁵ While deeming such reportage sensationalist, the Chinese government often

²² Geoffrey S. Becker, "Food and Agricultural Imports from China," in *CRS Report for Congress* (Washington, D.C.: Congressional Research Service, 20070717 - July 17, 2007), 15. – "On May 2, 2007, Senator Durbin won unanimous approval of an amendment to the Senate-passed FDA Revitalization Act (S. 1082) that would require domestic and foreign facilities to notify the [United States Food and Drug Administration] FDA of food safety problems; would require FDA to establish a central registry for collecting information about adulterated human or animal foods; and would require FDA to implement uniform national standards and labeling for pet foods." Furthermore, "Senator Durbin in July [2007] also introduced S. 1776, which would impose new user fees of \$20 per line item of imports to help defray the costs of inspections, increase the number of inspectors, and pay for research into new testing methods. Further, the measure would require foreign governments or firms that want to import food into the United States to be certified by FDA as having equivalent food safety programs...A similar House bill (H.R. 2997) was introduced by Representative Kaptur." Tom Plate, "Self-Defeating Hysteria over Chinese Exports," *South China Morning Post* 30 August 2007. – "Senior Democratic Senator Dick Durbin and others are actually calling for a ban on all toy imports from mainland China to the US." Additionally, "...Democratic presidential candidate Hillary Rodham Clinton: she wants Washington to get "tougher on China."

²³ "Stoking Protectionism: Substandard Exports from China Provoke Protectionist Responses," Ken DeWoskin, "The 'Made in China' Stigma Shock," *Far Eastern Economic Review* 170, no. 7 (2007): 11.

²⁴ "No More Toying Around," in *The Economist* (The Economist Intelligence Unit, 10 September 2007).

²⁵ Morrison, "Health and Safety Concerns over U.S. Imports of Chinese Products: An Overview." – "In June 2004, the Chinese *People's Daily* reported that fake baby formula had killed 50 to 60 infants in China." – "In June 2006, the *China Daily* reported that 11 people had died from a tainted injection used to treat gall bladders. The drug reportedly contained a toxic chemical, which some reports stated was sold to the Chinese pharmaceutical manufacturer without its knowledge, while others claimed that the company used the chemical to cut cost." Most recently, "In August 2006, *Xinhua News Agency* reported that a defective antibiotic drug killed seven people and sickened many others."

rejects goods from the United States, and from other nations, which are deemed unsafe, yet the international media is unable to report on whether there is, in fact, a product safety violation problem.²⁶ Additionally, if Chinese exported products are so dangerous then why do Japan, the United States, and the European Union accept over 99 percent of the Chinese products that their regulatory agencies inspect?²⁷

In summary, the areas of policy debate on China's product safety regime among international policy makers consist of the following:

- Alleged protectionism to protect foreign domestic markets from Chinese imports.
- Alleged media sensationalism that may either be serving as a productive "whistleblower" or unnecessarily damaging Sino-foreign trade relations.

3. Gaps in Scholarly/Policy Research

China's government claims to have a robust regime of product safety laws designed to protect both international and domestic consumer, especially in the area of food safety; however, consumer product safety lapses continue to tarnish the "Made in China" brand.²⁸ Despite the central government's apparently sincere desire to reform and strengthen the consumer product safety regime, its efforts are often thwarted by local, provincial, and occasionally corrupt national officials. Part of the problem is that local and provincial Chinese Communist Party administrators are promoted on the basis of

²⁶ Barboza, "China Acts to Cleanse Reputation." – "Chinese regulators have rejected imports of American meat, Indonesian seafood and other products from the Philippines, South Korea, Germany, France and Spain, saying those countries shipped shoddy or tainted goods."

²⁷ Wang Xiangwei, "Product Safety Flap Has Upside for Mainlanders," *South China Morning Post* 27 August 2007. – "The international concerns have spread to tainted toys, toothpaste and seafood and faulty (tyres) [tires], although the substandard products should account for a tiny portion of the U.S. \$1 trillion in exports. Indeed, officials have said that the qualification rate for exported food products had been over 99 per cent for many years." DeWoskin, "The 'Made in China' Stigma Shock," 10. – "In mid August [2007] the [Chinese] State Council issued a "White Paper on Food Quality and Safety." In defense of China's food export record, it notes that even Japan rated China's exports as the most highly acceptable among all of its imported foods. Even though Japan conducted more sample surveys on Chinese food than that from anywhere else, it had the highest acceptance rate at 99.42%. In 2006 and the first half of 2007, the acceptance rate of Chinese food shipments to the U.S. was 99.2% and 99.1%, respectively. In the case of the EU, the figures were 99.9% and 99.8%, respectively."

²⁸ China's State Council Information Office, "White Paper on Food Quality and Safety," Xinhua, http://www.chinadaily.com.cn/bizchina/2007-08/18/content_6032837.htm. (accessed September 2008).

how well their region performs economically. Furthermore, many local and provincial administrators also have a vested financial interest in the companies that they are responsible for supervising. Hence, many local and provincial officials fall prey to corruption and self-interest and overlook or ignore issues of consumer product safety.

In spite of a comprehensive review of both the consensus and the debate surrounding China's product safety, a comprehensive policy to improve China's product safety regulatory regime also requires research in the following areas: a comparative study of post-economic reform China and pre-quality revolution Japan (circa 1950s) and an analysis for the implementation of common international standards (e.g., ISO 9000 and ISO 22000) in large Chinese export-focused companies.

Similar to China, Japan suffered product quality and safety concerns as it emerged as an international exporter in the post-World War II period. In the 1950s, "Made in Japan" has in the past had the same negative connotations as "Made in China" has in some sectors of the economy today. Although a comparative study of the two countries may yield some significant differences based upon forms of government, paths to economic development, and advances in technology between the 1950s and the 21st century, a comparative study of the two countries and their respective consumer product safety regime could also yield useful lessons for China today.²⁹

Meanwhile, in the spirit of quality improvement for the sake of product safety and process control, China should perform an analysis to determine the effects of implementing common international standards on export-focused Chinese companies. These companies can assist in the restoration of the "Made in China" label by adopting the following practices: supply chain management, quality assurance standards, employee

²⁹ DeWoskin, "The 'Made in China' Stigma Shock," 9-10. – "Early in its postwar redevelopment, when the quality of Japanese goods was not highly regarded in key export markets, Tokyo famously invited W. Edwards Deming to lecture on quality. His appearances in 1950 were immediately followed with a widely publicized national commitment to address the quality challenge head-on. In the next decade, Japan trained 20,000 engineers in statistical quality control. The results were real and tangible. Rebranding "Made in Japan" to mean reliable quality enable the country's companies to gain global market leadership in high-value products from cameras to electronics to automobiles. At the peak of its achievement, Japan's quality campaign even propelled Japanese manufacturing systems, the well-known quality circles, into the global spotlight. Not only, Japanese goods themselves but the processes of Japanese companies became the envy of the world."

training on product safety requirements, and a sense of corporate accountability. An immediate impact on each of these areas would result if Chinese food producers implemented International Standard for Organization (ISO) 22000, which are a new International Standard aimed at guaranteeing the safety of “food supply chains worldwide” and the first of a number of management systems aimed at strengthening the quality and control of international food production and distribution.³⁰ Adoption of this standard would provide international consumers with a clear standard.³¹ As a result, China could ensure the safety and quality of food for both the domestic and export market.

In summary, the areas that require additional research to recommend improvements to China’s consumer product safety regime consist of the following:

- A study of the principal-agent relationship between local Chinese Communist Party officials and the companies that they are charged with supervising.
- A comparative study of quality control and product safety regimes between pre-quality revolution Japan and post-economic reform China.
- An analysis for the implementation of common international standards in China’s export-focused companies.

C. HYPOTHESIS

We now turn to the hypothesis that flows from the preceding scholarly/policy review and from the initial research question (which asked: How should the Chinese government respond in order to improve China’s consumer product safety regime with respect to food and drugs, so that the Chinese government can protect the country’s export driven economic growth and a large multinational body of consumers?)

³⁰ Roger Frost, "I.S.O. 22000 Is First in Family of Food Safety Management System Standards," *ISO Management Systems* (November-December 2005): 16.

³¹ Frost, "I.S.O. 22000 Is First in Family of Food Safety Management System Standards," 18.

1. Hypothesis Statement ³²

It is the hypothesis, or argument, of this thesis that China can improve its product safety regulatory regime through revised laws, improved law enforcement, enhanced domestic regulatory agency cooperation, and the adoption of international product safety regulations (ISO 22000). It also needs to implement lessons from developed nations (the United States and Japan), expand international cooperation on product safety regulation, and improve public relations with consumers, international businesses, and the media. Additionally, a line should be drawn between feasible and idealistic solutions, affordable and prohibitively expensive solutions, and finally short-term and long-term solutions.

a. Primary Hypothesis

As China's consumer product safety regime improves, China's export market for food and drug products will increase.

b. Subordinate Hypothesis

Revision and improvement in China's domestic product safety regulatory regime – laws, law enforcement, and domestic interagency cooperation – in addition to the adoption of international consumer product safety best practices for developing countries provide China with a short-term, affordable, and feasible solution to improve its product safety regulatory regime.

2. Policy Questions

How should the Chinese government respond in order to improve China's consumer product safety regime with respect to food and drugs, so that the Chinese government can protect the country's export driven economic growth and a large multinational body of consumers?"

³² Stephen Van-Evera, *Guide to Methods for Students of Political Science* (Ithaca, NY: Cornell University Press, 1997), 9. – Van-Evera defines, "A hypothesis is a conjectured relationship between two phenomena. Like laws, hypotheses can be two types: causal ("I surmise that A causes B") and noncausal ("I surmise that A and B are caused by C; hence A and B are correlated but neither causes the other")."

3. Policy Statement

China's central government can improve their food and drug consumer product safety regulatory and enforcement regime through the following actions:

- Revise laws.
- Improve law enforcement.
- Improve interagency cooperation among domestic regulatory and enforcement agencies.
- Expand interagency cooperation with the United States, the European Union, and Japan.
- Adopt international standards for quality and product safety (e.g., ISO 22000).
- Implement appropriate lessons from other nations, such as Japan, that overcame product quality and safety issues.
- Permit greater media coverage that can assist in exposing non-compliant government officials and businessmen.
- Improve domestic and international public relations on product safety issues by publicizing China's changes to the product safety regime and citing favorable statistics.
- Resolve protectionism by cooperating with the United States and other nations to improve the acceptance rate of products on both sides of the trade relationship.
- Implementing a combination of these institutions and practices at the domestic and international level will permit China to protect its economic growth and its international consumer market from food and drugs that may be harmful. Figure 1 provides an overview of the thesis.

Figure 1. Diagram of proposed responses to improve China's product safety regulatory regime.

Recommended Actions for China's Central Government to Improve China's Ailing Consumer Product Safety Regulatory and Enforcement Regime		
China's Central Government Product Safety Regime Reforms	Formal Measures (Institutions)	Informal Measures (Practices)
Internal (Domestic)	Revise Laws Improve Law Enforcement Improve Interagency Cooperation	Adopt International Standards Implement Lessons from Japan
External (International)	Expand International Interagency Cooperation	Permit Media Coverage Improve Public Relations to Overcome Sensationalism Resolve Protectionism

D. METHODOLOGY

1. Overview

The methodology followed to develop the hypothesis involves a straight-forward policy analysis approach. This entails looking at the problem in context and the evaluation of several alternative solutions to the problem. Meanwhile, the intended audience for this project is domestic and international government officials.³³

³³ Eugene Bardach, *A Practical Guide for Policy Analysis: The Eightfold Path to More Effective Problem Solving*, Second ed. (Washington, D.C.: CQ Press, a Division of Congressional Quarterly, Inc., 2005), xiii. – "...the subject matter [of policy analysis] concerns the lives and well-being of large numbers of fellow citizens."

Furthermore, the hypothesis as the term is used here is grounded in a methodology that can perform the following functions: program evaluation, program design, program management, and public relations.³⁴

2. Subset Analysis

A comparative analysis and a cost-benefit analysis will also be used to support the further development of two critical points recommended in the hypothesis.

First, comparative analysis will address the development of product quality and safety regimes by evaluating the pre-quality revolution in post-1945 Japan and post-economic reform China. The analysis will provide a reference point that can guide China in developing best-practices for developing product safety and quality. Despite differences in both forms of government and paths to economic development, Japan, which is renowned for the outstanding product quality of its manufactured goods, serves as a good case study for product quality and safety improvement in China.³⁵

A cost-benefit analysis, meanwhile, will assist in determining the practicality of implementing international standards, such as ISO 22000, in Chinese export-focused companies. International standards provide auditable standards with clear requirements that would improve the safety and quality of food and drug products produced in China; however, these systems are complex and costly to implement.³⁶ A cost-benefit analysis permits Chinese officials to evaluate which Chinese companies should implement the system based upon product safety requirements and the value added by ISO 22000. Comparative analysis and cost-benefit analysis constitute a minor role in the development of the hypothesis; therefore, the remainder of the discussion of methodology will concentrate on policy analysis.

³⁴ Bardach, *A Practical Guide for Policy Analysis: The Eightfold Path to More Effective Problem Solving*, xiii. - "Policy (analysts) [analysis] help[s] in planning, budgeting, program evaluation, program design, program management, public relations, and other functions."

³⁵ DeWoskin, "The 'Made in China' Stigma Shock," 9-10.

³⁶ Frost, "I.S.O. 22000 Is First in Family of Food Safety Management System Standards," 18.

3. Policy Analysis

Since product safety concerns in China are a contemporary issue with sparse academic research, analysis of the subject and policy recommendations will be drawn from academic conferences, government agencies, journal articles, and newspaper articles.

II. BEIJING SHOULD CLEAN HOUSE (FORMAL/INTERNAL RESPONSE)

A. OVERVIEW FOR A FORMAL/INTERNAL RESPONSE

In order to protect the “Made in China” brand from further damage, the Chinese central government continues to respond with a range of new institutions and practices: new laws to regulate the production and recall of consumer products, a vigorous effort to enforce new and existing consumer product laws, and intensified inspections to ensure the quality of goods for both export and domestic consumption.

1. Revise Laws and Improve Internal Interagency Cooperation

In July 2007, the Chinese central government appointed Vice Premier Wu Yi, who skillfully handled the Severe Acute Respiratory Syndrome (SARS) outbreak in 2003, as head of a food safety and product quality task force aimed at restoring China’s brand image.³⁷ The product quality task force represented an initial attempt to both focus the Chinese government’s attention on the critical issue of product safety and improve poor internal interagency cooperation among China’s product safety regulatory agencies. On July 27 2007, the Chinese National Quality Control Conference (attended by party officials and representatives from the country’s product safety regulatory agencies) in Beijing defined many of the requirements that Wu Yi should fulfill over the next few months.³⁸ On August 31 2007, Wu Yi, the “Iron Lady,” succinctly described her purpose

³⁷ "Product-Quality Scandals Persist."

³⁸ "China's Wen Jiabao, Wu Yi Address National Conference on Product Safety." – “Wen Jiabao, [member of the CCP Central Committee Political Bureau Standing Committee and premiere of the State Council], pointed out: Product quality has a close bearing on the people’s vital interests, on businesses’ survival and development, and on the image of the country.” Furthermore, “Wen Jiabao put forth the following six requirements to be met today and in the days to come: (1) Tightening up quality control in all areas... (2) Speeding up the formulation of standards for product quality... (3) Improving product quality from the source... (4) Formulating stronger laws for ensuring product quality... (5) Pooling efforts to launch a special drive to control product quality... (6) Tightening up the management of public opinion and information.”

and the mission of her task force in the following terms: “This is a special war to protect the safety and interests of the general public, as well as a war to safeguard the ‘Made in China’ label and the country’s image.”³⁹

In clear indication of support for Wu Yi’s statement, the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) for the People’s Republic of China announced the first recall system for unsafe food and toys the same day.⁴⁰ AQSIQ is responsible for all products produced in China for both domestic and international markets.⁴¹ According to *CNN*, “[The new regulations] require manufacturers to stop production and sales, notify vendors and customers, and report to quality control authorities when defects are found.”⁴² The recall system also requires food producers to “voluntarily recall any potentially harmful products and investigate immediately.”⁴³ If the food producer fails to take the appropriate action or a food incident occurs, then the administration will force a recall and issue a consumer safety alert.⁴⁴

In addition to the recall system, the Ministry of Agriculture (MOA) expanded food labeling requirements and directed the establishment of a new food-tracking and monitoring system, initially to support food safety during the 2008 Olympics.⁴⁵ In support of the recall and food monitoring systems, the central government reports that it plans to spend approximately \$1.1 billion dollars by 2010 to strengthen supervisory capacity in relation to food and drug safety.⁴⁶ This revamped food monitoring system should improve food safety for major cities in China and for export markets. Both systems are an important first step in the development of a product safety regime

³⁹ Barboza, "China Acts to Cleanse Reputation."

⁴⁰ "Beijing Launches Massive Checkup for Product Quality, Food Safety."

⁴¹ CNN Money, "China Starts Recall System for Food, Toys," CNN, http://money.cnn.com/2007/08/31/news/international/china_recall.ap/index.htm?section=money_topstories. (accessed September 2008).

⁴² CNN Money, "China Starts Recall System for Food, Toys."

⁴³ CNN Money, "China Starts Recall System for Food, Toys."

⁴⁴ CNN Money, "China Starts Recall System for Food, Toys."

⁴⁵ "Product-Quality Scandals Persist."

⁴⁶ Barboza, "China Acts to Cleanse Reputation."

designed to protect China's international reputation as a manufacturer; however, these laws will mean little if they are not enforced routinely and at all levels of the Chinese government.

2. Improve Law Enforcement

New laws are not easily enforced in China. According to *The Economist*, "Unhealthy links between government and business, combined with patchy implementation of rules and regulations mean that China has a political culture that will be hard to transform quickly."⁴⁷ Regulatory agencies are often understaffed and susceptible to corruption at the local level. Even with intense effort, it will be very challenging for poorly staffed regulatory enforcement bodies to monitor China's small vendors and food suppliers who have been mandated to comply with the country's new food recall and monitoring systems.⁴⁸

However, in recent months regulators from agencies, like China's State Food and Drug Administration, have reportedly disrupted numerous counterfeit pharmaceutical businesses that produced products ranging from fake bird flu vaccine to fake Viagra.⁴⁹ In addition to the drug industry, Chinese regulators have also severely scrutinized farmers, grocers, restaurants, and other businesses in the food production supply chain.⁵⁰ As an example of China's effort to improve their food quality through inspection and enforcement, a recent *Congressional Research Service* report notes that China conducted 10.4 million inspections that closed 152,000 unlicensed food businesses.⁵¹

⁴⁷ "Stoking Protectionism: Substandard Exports from China Provoke Protectionist Responses."

⁴⁸ Cary Huang, "Number of Food Processors to Pose Challenge for Recall Plan, Says Official," *South China Morning Post* 28 August 2007.

⁴⁹ Barboza, "China Acts to Cleanse Reputation."

⁵⁰ David Barboza, "China in Public Relations Offensive for Products," *The International Herald Tribune* 6 September 2007.

⁵¹ Morrison, "Health and Safety Concerns over U.S. Imports of Chinese Products: An Overview," 4. Morrison notes: "In June 2007, the *China Daily* reported that a nationwide inspection of the food production industry had found that a variety of dangerous raw materials had been used in the production of flour, candy, pickles, biscuits, black fungus, melon seeds, bean curd, and seafood. As a result, the government reportedly closed 180 food factories found to be producing unsafe products and/or making fake commodities. It also reported that in 2006, the government had conducted 10.4 million inspections, uncovering problems in 360,000 food businesses and had closed 152,000 unlicensed food businesses."

In the past China's central government has passed laws to appease international concerns on many issues ranging from intellectual property rights to environmental protection. However, there was little or no actual enforcement of these at the local level. Will China's product safety laws suffer the same fate? According to *BusinessWeek*, "Political corruption and lax regulatory oversight have caused health problems and even deaths inside China."⁵² However, it appears that, in the context of the latest round of scandals and the holding of the 2008 Olympics in Beijing, the modes of governance and business that caused these problems may actually be beginning to change. In the arena of consumer product safety, the central government is adamant that it will no longer tolerate corruption or lack of oversight by local and regional authorities.⁵³ During a media briefing in late August of 2007, Kuang Weilin, China's deputy consul general in New York stated that there would be "zero tolerance for violators or government officials who fail to perform their duties."⁵⁴ As a testament to the central government's commitment to enforcement, on July 10 2007 *BusinessWeek* reported that Zheng Xiaoyu, the former commissioner of the country's State Food and Drug Administration, "was executed (Figure 2) for accepting bribes of about \$850,000 from eight drug companies seeking quick product approval."⁵⁵ Clearly, the harsh sentence for Zheng Xiaoyu's crimes was intended to send a signal to both local officials and the international community that the Chinese central government was fully committed to addressing the current consumer product safety crisis through enforcement of the law.

⁵² Brian Bremner, "Paulson's China Charm Offensive," *BusinessWeek* Online, http://www.businessweek.com/globalbiz/content/jul2007/gb20070731_552927.htm?chan=search. (accessed September 2008).

⁵³ John Gapper, "China Pledges to Raise Safety Standards," *Financial Times* 31 August 2007.

⁵⁴ Gapper, "China Pledges to Raise Safety Standards."

⁵⁵ Bremner, "Paulson's China Charm Offensive."

Figure 2. New York Times: “Zheng Xiaoyu, the former director of China’s State Food and Drug Administration, was executed July 10 [, 2007,] for approving untested medicine in exchange for cash. He became the highest-ranking Chinese official ever put to death.⁵⁶



B. REVISION OF CHINA’S CONSUMER PRODUCT SAFETY LAWS

Which laws currently protect food and drug consumers from the negligence of numerous enterprises and which laws need to be revised?

⁵⁶ "Director of China's State Food and Drug Administration Executed," New York Times, <http://www.nytimes.com/imagepages/2007/07/12/business/13corrupt.1.ready.html>. (accessed September 2008).

1. China's Current Consumer Product Safety Laws, Regulations, and Rules for Food, Drugs, and Other Items

a. China's Consumer Product Safety Laws

In response to a wake of product quality scandals in early 2007, China's State Council published a "White Paper on Food Quality and Safety." According to the White Paper, "China now has a complete law regime providing a sound foundation and good environment guaranteeing food safety, improving food quality and regulating food imports and exports."⁵⁷ Table 1 addresses specific laws that support product quality in China.

Table 1. Product Quality Laws in China.⁵⁸

Product Quality Laws in China
Product Quality Law
Standardization Law
Metrology Law
Law on the Protection of Consumer Rights and Interests
Law on Quality and Safety of Agricultural Products
Criminal Law
Food Hygiene Law
Law on Import and Export Commodity Inspection
Law on Animal and Plant Entry and Exit Quarantine
Frontier Health and Quarantine Law
Law on Animal and Disease Prevention

⁵⁷ China's State Council Information Office, "White Paper on Food Quality and Safety."

⁵⁸ China's State Council Information Office, "White Paper on Food Quality and Safety." The White Paper notes China's Product Quality Laws: "China now has a complete law regime providing a sound foundation and good environment for guaranteeing food safety, improving food quality and regulating food imports and exports. The specific laws in this regard include the Product Quality Law, Standardization Law, Metrology Law, Law on the Protection of Consumer Rights and Interests, Law on the Quality and Safety of Agricultural Products, Criminal Law, Food Hygiene Law, Law on Import and Export Commodity Inspection, Law on Animal and Plant Entry and Exit Quarantine, Frontier Health and Quarantine Law and Law on Animal and Disease Prevention."

The laws specified in the White Paper run parallel to laws present in mature industrialized economies; however, enforcement of these laws in the face of widespread corporate and judicial corruption work against the central governments efforts to promote product safety.

b. China's Consumer Product Safety Regulations

In addition to a robust set of laws, China's central government has instituted specific administrative regulations to the product safety of Chinese made goods. In addition to laws the White Paper also highlights specific product quality regulations designed to protect consumers. Table 2 provides an overview of specific product quality and safety regulation in China.

Table 2. Product Quality Regulations in China.⁵⁹

Product Quality Regulations in China
Special Regulations of the State Council on Strengthening Safety Supervision and Administration of Food and Other Products
Regulations of the People's Republic of China on the Administration of Production Licenses for Industrial Products
Regulations of the People's Republic of China on Certification and Accreditation
Regulations for the Implementation of the Law of the People's Republic of China on Animal and Plant Entry and Exit Quarantine
Administrative Regulations of the People's Republic of China of Veterinary Medicine
Administrative Regulations of the People's Republic of China on Pesticides
Provisions of the People's Republic of China on Place of Origin of Export Goods
Regulations for the Implementation of the Standardization Law of the People's Republic of China
Measures for Investigating, Punishing and Banning Unlicensed Business Operations
Regulations on the Administration of Feedstuffs and Feed Additives
Administrative Regulations on the Safety of Genetically Modified Agricultural Organisms
Regulations of the People's Republic of China on Import and Export of Endangered Wild Fauna and Flora

Again, these regulations appear to be both detailed and adequate; however, as is the case with the laws discussed above, there is a lack of enforcement that continues to undermine product safety.

⁵⁹ China's State Council Information Office, "White Paper on Food Quality and Safety." The White Paper notes the following product safety regulations in China: "The specific administrative regulations in this regard include the Special Regulations of the State Council on Strengthening Safety Supervision and Administration of Food and Other Products, Regulations of the People's Republic of China on the Administration of Production Licenses for Industrial Products, Regulations of the People's Republic of China on Certification and Accreditation, Regulations for the Implementation of the Law of the People's Republic of China on Animal and Plant Entry and Exit Quarantine, Administrative Regulations of the People's Republic of China on Veterinary Medicine, Administrative Regulations of the People's Republic of China on Pesticides, Provisions of the People's Republic of China on Place of Origin of Export Goods, Regulations for the Implementation of the Standardization Law of the People's Republic of China, Measures for Investigating, Punishing and Banning Unlicensed Business Operations, Regulations on the Administration of Feedstuffs and Feed Additives, Administrative Regulations on the Safety of Genetically Modified Agricultural Organisms and Regulations of the People's Republic of China on Import and Export of Endangered Wild Fauna and Flora."

c. China's Consumer Product Safety Rules

As with laws and regulations, various departments within the central government have implemented rules to protect consumers and China's brand name. In order to further protect consumers, various departments have implemented rules as well. Table 3 provides a brief overview of various departmental rules that China exercised to ensure quality.

Table 3. China's Departmental Rules on Product Quality.⁶⁰

China's Departmental Rules on Product Quality
Detailed Rules for the Implementation of the Measures for the Administration of the Supervision of Quality and Safety of Food Producing and Processing Enterprises (Trial)
Measures for the Implementation of the Regulations of the People's Republic of China for the Administration of Production Licenses for Industrial Products
Measures for the Administration of Food Hygiene Licenses
Measures for the Hygiene Administration of Food Additives
Measures for the Administration of Inspection and Quarantine of Entry and Exit Meat Products
Measures for the Administration of Inspection and Quarantine of Entry and Exit of Aquatic Products
Measures for the Administration of Food Safety in the Circulation Sector
Measures for the Administration of the Safety of Places of Origin of Agricultural Products
Measures for the Administration of the Packaging and Marks of Agricultural Products
Regulations for the Administration of Hygiene
Registration of Export Food Production Enterprises

⁶⁰ China's State Council Information Office, "White Paper on Food Quality and Safety." The White Paper annotates the following departmental rules: "The specific departmental rules include the Detailed Rules for the Implementation of the Measures for the Administration of the Supervision of Quality and Safety of Food of Food Producing and Processing Enterprises (Trial), Measures for the Implementation of the Regulations of the People's Republic of China for the Administration of Production Licenses for Industrial Products, Measures for the China for the Administration of Production Licenses for Industrial Products. Measures for the Administration of Food Hygiene Licenses, Measures for the Hygiene Administration of Food Additives, Measures for the Administration of Inspection and Quarantine of Entry and Exit Meat Products, Measures for the Administration of Inspection and Quarantine of Entry and Exit of Aquatic Products, Measures for the Administration of Food Safety in the Circulation Sector, Measures for the Administration of the Safety of Places of Origin of Agricultural Products, Measures for the Administration of the Safety of Places of Origin of Agricultural Products, Measures for the Administration of the Packaging and Marks of Agricultural Products, Regulations for the Administration of Hygiene, and the Registration of Export Food Production Enterprises."

Ultimately a plethora of rules, laws, and regulations, which ostensibly are aimed at protecting domestic and international consumers from dangerous products, come up against the major obstacles of enforcement and monitoring, as well as the corruption prevalent among provincial and local officials.

2. Revisions to China's Consumer Product Safety Laws for Food

a. China's Food Recall Law

In the wake of the 2007 product safety scandals involving pet food that contained melamine and the distribution of contaminated toothpaste, China established a food recall system. The Chinese General Administration of Quality Supervision, Inspection and Quarantine established a recall system for food and toys based upon an earlier (2005) recall system established in China for defective vehicles.⁶¹ The new recall system requires producers to halt production and notify retailers and customers of any product defects.⁶² If the producer fails to act in a timely or accurate manner then the government will issue a consumer alert and mandate a recall of the defective product or non-compliant food.⁶³ The food recall system mandated a basic recall system that has the potential to protect domestic and international consumers from inadvertent or deliberate lapses in the quality control of food.

3. Conclusion: China's Product Safety Laws for Food

With respect to laws, the Chinese government formally mandates provisions similar to those of the United States and Japan, yet China continues to be plagued by

⁶¹ CNN Money, "China Starts Recall System for Food, Toys."

⁶² CNN Money, "China Starts Recall System for Food, Toys." CNN Money explained the mechanics of the recall system: "[The food and toy recall system] requires manufacturers to stop production and sales, notify vendors and customers, and report to quality control authorities when defects are found. The [General Administration of Quality Supervision, Inspection and Quarantine] oversees all products made in China and the measure appears to be targeted at goods manufactured for both domestic and global consumption. The administration said food producers should voluntarily recall any potentially harmful products and investigate immediately. It will force a recall and issue a consumer alert if manufacturers fail to take actions or if a food safety incident occurs."

⁶³ CNN Money, "China Starts Recall System for Food, Toys."

embarrassing safety issues with respect to food and other items. Laws only offer a small portion of the solutions to China's product safety fiasco. The core of the solution lies in actually establishing the rule of law, not just passing laws, and more particularly in significantly reducing corruption at the local level.⁶⁴

C. IMPROVE LAW ENFORCEMENT AND REDUCE CORRUPTION WITH RESPECT TO CONSUMER PRODUCT SAFETY

Strengthening law enforcement at the local level with respect to product safety is difficult for a myriad of factors. Many officials charged with enforcing product safety laws fail to actually do so because of a conflict of interest between their own direct or indirect compensation by the producers of the food or drugs on the one hand and compliance with the law on the other hand. Additionally, individual workers that report unsafe production practices, contamination, or others problems can face harsh social and economic consequences; therefore, few "whistleblowers" exist in China.⁶⁵ Finally, China's nascent judicial system offers little in the way of institutionalized processes or lawyers that have the ability to hold Chinese food producers accountable for infractions of the laws in a domestic or international context.

China's laws do not permit manufacturers to use dangerous chemicals or bypass critical quality assurance measures; however, many Chinese officials fail to enforce the current laws with respect to product safety. The lack of the rule of law in China undermines market forces through corruption, cronyism, and governmental connections.⁶⁶ This opaque business environment prevents natural economic behavior

⁶⁴ Wayne M. Morrison, September 18, 2008.

⁶⁵ Peter Navarro, *The Coming China Wars : Where They Will Be Fought and How They Can Be Won*, Rev. and expanded ed. (Upper Saddle River, N.J.: FT Press, 2008), 38.

⁶⁶ Morrison. Morrison explains absence of the rule of law and its potential consequences for China: "The lack of the rule of law in China has led to widespread government corruption, financial speculation, and misallocation of investment funds. In many cases, government "connections," not market forces, are the main determinant of successful firms in China. Many U.S. firms find it difficult to do business in China because rules and regulations are generally not consistent or transparent, contracts are not easily enforced, and intellectual property rights are not protected (due to the lack of an independent judicial system). The lack of the rule of law in China limits competition and undermines the efficient allocation of goods and services in the economy."

from taking root in China and foreign companies find it very difficult to operate within China's complex business terrain.⁶⁷ Morrison highlights the impact that the lack of the rule of law has on the Chinese economy. If China remains unable to enforce its laws, then the legal revision of China's product safety regime will not lead to any improvement in the standard of goods produced or a change for the better in the perception of products "Made in China."

1. Problems with China's Law Enforcement with Respect to Consumer Product Safety

a. Corrupt Relationships between Businesses and Local Government Officials in China

In many cases, lapses in food and drug product safety can be traced to illicit relations between Chinese government officials and influential business leaders within the community. In some cases, Chinese government officials even hold interest in companies that they are supposed to regulate. In either case, collusion between government official and business leaders has the potential to lead both deliberate and inadvertent lapses in products safety for food and drugs.

Government officials, especially at the local and provincial levels, are apt to use their position of power to enhance their personal wealth at the cost of the public good. As Lord explains:

There is systemic corruption throughout China's bureaucracies. Government officials appear to use their positions as an opportunity to make as much money as possible during the time they hold the position and get out before any wrongdoing is discovered. Long-term thinking seems to be sacrificed in modern China where those who are able to make short-term riches are idolized. Who wants to work his whole life when corruption offers a shortcut?⁶⁸

⁶⁷ Morrison.

⁶⁸ James Vincent Lord, *10 Steps to Success: The Essential Guide for Buying from China's Manufacturers* (New York, NY: Guru Series, 2007), 58.

Additionally, even if there are honest local Chinese government officials they remain hampered by corrupt practices that are taking place around them, about which they may or may not be aware. Local officials are often co-opted by powerful local special interests in business, and local unrest directed at local officials based on corrupt practices generated by powerful local businesses further weakens and destabilizes local officials' ability to rule.⁶⁹ Corruption in China can undermine economic growth, political stability, and the safety of consumers that depend upon Chinese produced items, specifically food and drugs.

In cases where a Chinese government official owns an interest in a company that he is also required to regulate, the conflict of interest is obvious. On one hand, the government official has a responsibility to ensure the public's safety through the enforcement of laws and regulations that govern Chinese companies. On the other hand, the same government official has an interest in maximizing the profits of the Chinese companies in which he is a stakeholder. Additionally, promotion up the ranks of the Chinese Communist Party is often tied to the vigorous economic performance of a particular region where the official works. The economic incentives and possibilities of promotion for Chinese government officials encourages them to cooperate and collude with business leaders and far outweighs their formal role to regulate unsafe manufacturing outputs to the domestic and international market. Thus, although

⁶⁹ James Kynge, *China Shakes the World : A Titan's Rise and Troubled Future-- and the Challenge for America*, 1st Mariner Books ed. (Boston: Houghton Mifflin, 2007), 202. Kynge explains: "Local governments in many parts of the country have been hijacked by special interest syndicates that typically consist of government officials and the most influential business leaders. These secret syndicates exist to enrich their members, often at the expense of the public, and so they are implacably opposed to any reform that could unravel the web of relationships that boost their bank balances. No one knows how prevalent these syndicates may be, but a surge in the number of public protests directed at local governments suggests a sharply deteriorating situation. The number of "mass incidents" – the Ministry of Public Security's catchall term for sit-ins, strikes, group petitions, rallies, demonstrations, marches, traffic-blocking, building seizures, and other forms of unrest – reached 74,000 in 2004, an all-time high, and involved 3.7 million individuals. In 1994, by comparison, there were about 10,000 such incidents, with just 730,000 participants. In 2005 the numbers continued to rise. Although no "mass incidents" have escalated into coordinated, nationwide movements, the dramatic increase in local protests shows that material enrichment alone does not guarantee greater public contentment. In fact, the outbreaks have grown in recent years at roughly the same rate as the economy – that is to say, around 9 percent. In the overwhelming majority of cases, the flare-ups have been sparked by the arbitrary behavior of local government officials who seize land and other assets from ordinary citizens but offer little or no compensation."

corruption among government officials and business managers poses a dangerous threat to China's consumer product safety regime, corruption continues to occur at all levels of the production process and throughout the supply chain.

b. Corrupt Workers Impact Efforts to Enhance Product Safety in China

Even when government officials and a firm's management attempt to control product quality within the guidelines and regulations established by the Chinese government, key workers within the firm still have ample ability and incentive to accept bribes in return for accepting sub-standard or tainted raw materials for the making of food or drugs. More often than not, these lapses may go unnoticed throughout the supply chain. The consumer may actually use the drug or consume the food product with no immediate side effects that might hint at the products contamination. Lord notes that audits and quality inspections are often thwarted at very low-levels within Chinese firms.⁷⁰ Income disparity and greed provide the most likely reasons for corruption at this level within Chinese firms. Neither condition yields an easy or all-encompassing solution that would dissuade corrupt practices by employees charged with quality control or auditing within a company.

c. The Whistleblower's Dilemma in China

Whistleblowers in China that disclose corruption or dangerous manufacturing processes in an effort to prevent lapses in product safety are often

⁷⁰ Lord, *10 Steps to Success: The Essential Guide for Buying from China's Manufacturers*, 59-60. Lord notes: "Corrupt practices pervade product quality inspections. Quality inspectors are routinely paid a month's wage or sufficiently "entertained" to pass an inspection that might otherwise fail, particularly on borderline cases. Indeed, dishonest quality inspectors are only too pleased to come across or create borderline quality issues. These problems are not so bad that passing them would later put themselves at high-risk, yet ambiguous enough to use as leverage to extort a "red pocket" from a manufacturer facing penalties for late shipment. [Alternatively,] factories are required to pass a Factory Audit to manufacture and export to many of the major retailers. The auditors that conduct these factory audits can make it more difficult than necessary to pass the audit; that is, until adequate "encouragement" is provided. I am certainly not saying that all inspectors and auditors are dishonest, only that such practice regularly occurs. Inspection and auditing companies are in constant battle to update their procedures and rotate staff to remain credible and continue to provide a quality service. For our purposes, it is necessary to be aware that corruption is all-pervasive in China – from large sums of money changing hands on huge projects, to small-scale illicit endeavors at the lowest levels and smallest recesses within companies."

subjected to imprisonment, economic retaliation, or physical injury at the hands of local government officials, firm managers, and even their co-workers. In their book, *Will the Boat Sink the Water?*, Chen and Wu recount four horrific incidents in which individuals attempted to stand-up to local injustices only to be met with ridicule, alienation, incarceration, and even death.⁷¹ Navarro illustrates three cases first reported in the *Financial Times* where whistleblowers suffered based upon their reports of corruption and misdeeds perpetrated by their firms.⁷² Unlike the United States, China does not have whistleblower protection laws that prevent employers or the government from retaliating against individuals who expose wrongdoing, product safety negligence, or corruption.⁷³ As Wang Hai, a Chinese consumer rights advocate notes, “If you want to have a good system of consumer protection, protecting whistleblowers is an essential requirement.”

d. Lack of Rule of Law in China Hampers Enforcement of Product Safety Laws

China retains a nascent, yet budding, judicial and corporate governance system. Many international companies experience frustration in a Chinese business environment that fails to enforce contracts and product safety laws. The lack of rule of law in China fosters government corruption and retards enforcement of laws designed to protect consumers, investors, and private companies. In order to promote economic development and protect consumers from product safety lapses, China must establish an independent judiciary that is not beholden to political elites at the local and national

⁷¹ Guidi Chen and Chuntao, *Will the Boat Sink the Water?: The Life of China's Peasants*, 1st ed. (New York: Public Affairs, 2006), 1-224.

⁷² Navarro, *The Coming China Wars : Where They Will Be Fought and How They Can Be Won*, 38-39. Navarro cites three whistleblower cases in China: “The first whistleblower, Dr. Tang Zhixiong, accused his fellow doctors of conducting unethical transplant surgeries. In addition, Ms. Zhou Huanxi and Mr. Shi Yuefu each separately denounced their former companies for producing fake medicines. Dr. Tang is now on the run after receiving violent threats, and he fears arrest on trumped up charges. Dr. Tang’s fear of arrest is hardly unfounded. After Ms. Zhou revealed that a tonic being marketed to pregnant women as a health enhancer was nothing but snake oil, she was arrested on phony charge of blackmail and jailed for almost four years. Meanwhile, Mr. Shi was not quite as “lucky” as Dr. Tang and Ms. Zhou. He was run over by a van with a bogus license plate and left with serious brain injuries.”

⁷³ “Whistleblower Laws: An Overview,” WhistleblowerLaws.com, http://whistleblowerlaws.com/index.php?option=com_content&task=view&id=14&Itemid=27. (accessed September 2008).

levels of the Chinese Communist Party. Furthermore, China has too few lawyers to implement laws to protect consumers, investors, or companies.⁷⁴ In order for Chinese companies and local level Chinese Party Officials to place a premium on consumer product safety, then the rule of law must first exist in China.

D. RECOMMENDATIONS TO IMPROVE CHINA'S LAWS AND LAW ENFORCEMENT WITH RESPECT TO CONSUMER PRODUCT SAFETY

1. Consumer Product Safety Laws

China possesses a relatively robust regulatory system with respect to consumer product safety, especially with respect to food producers. The Chinese government is weak with respect to specific laws that protect consumers, and it is also weak on enforcement of existing product safety regulations.⁷⁵ Consumers have little recourse of action against Chinese companies that fail to comply with product safety standards because of a corrupt and interdependent judicial system. Additionally, China's product safety enforcement agencies lack adequate manpower and funding to successfully implement existing regulatory requirements.⁷⁶

a. Recommendations

- Expand funding/manpower and coordinate actions for the following Chinese consumer product safety enforcement agencies:
 - General Administration of Quality Supervision, Inspection and Quarantine
 - State Food and Drug Administration
 - Health Ministry
 - Agriculture Ministry

⁷⁴ James A. Ogilvy, Peter Schwartz, and Joe Flower, *China's Futures : Scenarios for the World's Fastest Growing Economy, Ecology, and Society*, 1st ed. (San Francisco: Jossey-Bass, 2000; reprint, Abstract), 1, 4.

⁷⁵ Morrison, "China-U.S. Trade Issues," 9.

⁷⁶ Morrison, "China-U.S. Trade Issues," 9.

- Commerce Ministry
- State Administration of Industry and Commerce.⁷⁷
- Place well-educated and independent product safety regulators at the local level in order to conduct accurate assessments of each company's compliance with product safety laws and regulations. Regulators must have direct report authority to their individual regulatory agencies at the state level in order to minimize conflicts of interest at the local level.
- Establish an independent judicial system that permits consumers to take effective legal action against negligent Chinese companies.

b. Barriers to Implementation

Although the State Council produces additional regulations and laws, provincial, city, county, and township officials lack the incentives and oversight that are necessary to implement costly and burdensome product safety practices.

First, China's post-1978 economic reform led to a rent-seeking, decentralized authoritarian government.⁷⁸ The State Council – central government – has little ability to enforce mandates on the local government.⁷⁹ In fact, with each diminishing body within the hierarchical structure the balance of power shifts more from the central government to the local government (Figure 3).⁸⁰

⁷⁷ John Vause, "CNN Special: Made in China, Part 1," in *Made in China*, ed. John Vause (CNN International, 2007).

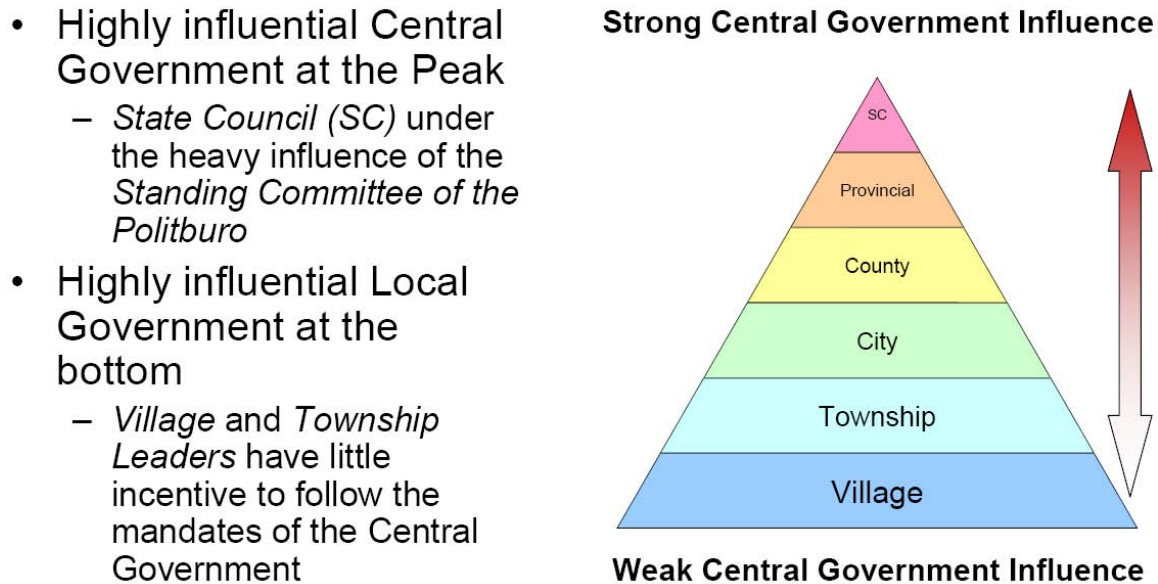
⁷⁸ Kenneth Lieberthal, "Governing China : From Revolution through Reform," (2004): 189.

⁷⁹ Lieberthal, "Governing China : From Revolution through Reform," 180. Lieberthal notes: "The loss of ideological discipline, the officially sanctioned scramble for wealth, and resulting corruption have significantly eroded the leverage of the Center over activities of the provinces [, cities, counties, and townships]. Although Beijing remains important resources to bring provinces to heel, provincial leaders often evade orders that are not quite specific, or are not given high priority by the national leaders."

⁸⁰ Lieberthal, "Governing China : From Revolution through Reform," 181.

Figure 3. The Spectrum of Political Power and Influence in China.⁸¹

Spectrum of Political Influence in China



Second, China's producers are under enormous pressure from large multinational corporations, such as Wal-Mart, to reduce cost in an environment of increasing labor and material costs.⁸² Implementation of laws, regulations, and production standards would drive up the production costs for Chinese food and drug producers that already operate with very low margins. Increased production costs from quality control would

⁸¹ Lieberthal, "Governing China : From Revolution through Reform," 180-81. – Figure 3 developed from Lieberthal's discussion on the hierarchy of China's governmental structure.

⁸² Chris Ansell, "Introduction: Holding China Accountable? Protecting Consumers in Global Markets," in *8th Annual Travers Conference on Ethics and Accountability in Government: Holding China Accountable? Protecting Consumers in Global Markets* (University of California, Berkeley: October 10, 2008), 8. Ansell notes: "Another factor contributing to the problem is cost-pressure on suppliers. Chinese imports are particularly sensitive to low quality, unsafe, or fraudulent products because price considerations are often the predominant consideration. In global food supply chains, buying organizations are typically large, vertically integrated multinational corporations that emphasize low cost. The "Wal-Mart" effect (huge buying power leading to cost-cutting pressures) and the increasing costs of production are seen as driving exporters to search for ways to use cheaper materials. The razor thin margins of Chinese manufacturers are regarded as creating a powerful incentive for production fraud. Chinese officials have even suggested that the problem comes in part from American companies who insist on low prices without clearly communicating their quality standards."

inevitably cause producers to lose clients and profits, so producers have no tangible incentive to comply with the quality mandates of Beijing at the level of the firm.

In summary, Beijing has to find a practical solution for the expansion the country's quality control enforcement regime and to create market incentives that motivate producers to comply with product safety laws and regulations.

c. Practical Recommendations

In order to implement product safety laws and regulations established by the central government, the central government must develop incentives to garner the compliance of local officials and firms in the marketplace. First, a local official's promotion should correlate to the official's compliance with environmental regulations and product safety regulations while still maintaining robust economic growth within his or her province, county, city, or township. Admittedly, these three priorities require trade-offs among each, yet efficient managers and politicians find a method for managing competing priorities when incentives are accurately aligned to the firm's or country's goals. Second, central government must provide economic benefits to those firms that can demonstrate product safety regulatory compliance through process controls and empirical evidence. Although neither of these solutions represent a clear and concise method for improving China's ailing consumer product safety regime, each recommendation is feasible with the likelihood of tangible short-term results.

2. Law Enforcement

Enforcement of existing laws and regulations for product safety in China fail for two reasons. First, regulatory and enforcement agencies lack adequate manpower and resources to impose existing laws and regulations on Chinese producers.⁸³ Second, local officials responsible for implementing laws and regulations often have a stake in insuring that local companies succeed financially. Local officials get promoted based upon their

⁸³ Morrison, "China-U.S. Trade Issues," 9.

territories economic prosperity – not compliance with product safety or environmental regulations. Additionally, some local officials partially own some of the companies that they are required to regulate.

a. Recommendations

- Reduce the principal-agent dilemma by eliminating ownership rights of any Chinese Communist Party Official that has a responsibility for regulating the aforementioned company.
- Reward local Chinese Communist Party Officials for economic performance, product safety, and environmental compliance. Punish any official that violates product safety and environmental regulations. Severely punish any acts of corruption that result in illness or loss of life to domestic and international consumers.

b. Barriers to Implementation

Legal reforms fail to solve regulatory and product safety failures within China's consumer product safety regime. Stanley Lubman of Boalt Law School notes that China's legal institutions are "vague, incomplete, and weak."⁸⁴ A legal system did not exist in China prior to 1979, so it remains one of the weakest institutions in Chinese society.⁸⁵ Corruption within China among business and government officials grew into an endemic problem that coincided with economic reforms that decentralized executive decision making within the government – specifically the Chinese Communist Party.⁸⁶ Broader and more detailed regulations remain an incomplete answer to product safety problems with Chinese producers.

⁸⁴ Stanley Lubman, "Panel II: Challenges for the Chinese Regulatory Regime," in *8th Annual Travers Conference on Ethics and Accountability in Government: Holding China Accountable? Protecting Consumers in Global Markets* (University of California, Berkeley: October 10, 2008).

⁸⁵ Lubman, "Panel II: Challenges for the Chinese Regulatory Regime."

⁸⁶ Stanley Lubman, "Looking for Law in China," *Columbia Journal of Asian Law* 20, no. 1 (Fall 2006): 74-76. Lubman notes: "China's recent economic development has been among the most dramatic in world history, and rapid economic change of this sort inevitably presents fertile ground for official graft. China's development has also involved widespread privatization of state assets, presenting numerous opportunities for the misappropriation of state-owned resources. Additionally, profound economic changes have coincided with the decentralization of political decision-making and law-enforcement, further loosening the reins of executive control. Judicial institutions remain underdeveloped and subject to political influence. China's poorly paid government officials are highly vulnerable to corruption in this environment, especially when government leaders proclaim that "to get rich is glorious" and officials see others (including recent colleagues) enriching themselves."

Until incentives that reward efforts to improve product safety and reduce environmental impact exist, government official and producers will continue to focus upon economic incentives that result from economic margins that are increased through corruption, poor product quality, and pollution. China's naïve form of capitalistic society continues to ignore the real strength of a free-market system: individuals maximize their own self-interest. This dogmatic fact has to be used in a manner that aligns the interest of the individual with the interest of the firm and the state in order to continue China's growing economic prosperity.

In summary, market incentives have to be aligned with individual incentives. Otherwise, government officials will not enforce the law, and producers will not obey the law.

c. Practical Recommendations

The central government should work to establish an independent judiciary system supported by legal practitioners with the ability to sue Chinese producers for violations of product safety and environmental laws. Currently no credible institutions exist in China for dispute resolution between Chinese producer and domestic or international consumers.⁸⁷ All too often, local policymakers trump or thwart any attempted actions by legal institutions where their own personal financial interest is at stake. Hence, government officials and their families should be excluded from holding personal stakes in local enterprises within their jurisdiction. Furthermore, lawsuits provide an excellent incentive for producers to comply with product safety standards in order to avoid the burden of paying financial damages to claimants. Losses from legal action will likely outweigh savings from product safety regulatory avoidance. Admittedly, divestment of government officials from local businesses and legal action against producers represent dramatic cultural and political changes within Chinese society; however, no other credible solutions are readily apparent.

⁸⁷ Lubman, "Panel II: Challenges for the Chinese Regulatory Regime."

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III. BEIJING SHOULD SEEK HELP AND COOPERATION (FORMAL/EXTERNAL RESPONSE)

A. OVERVIEW FOR A FORMAL/EXTERNAL RESPONSE

1. Expand International Interagency Cooperation

The Chinese central government has also sought external support from other nations in an effort to improve China's product safety regime. The international and interagency effort can assist China in surpassing decades of difficult issues that other industrialized nations had to endure during their own economic development period. Many processes and technologies that promote product safety and quality assurance already exist in the European Union, the United States, and Japan; therefore, Perhaps, China only needs to focus on the implementation of these practices, rather than the development of them. On the other hand, China's economic rise differs from Japan and other industrialized nations with respect to its political, technological, and economic landscape. This solution may be less feasible or applicable than others; however, China remains a crucial manufacturing base for many international companies, and cooperation with China's government in the improvement of product safety benefits China and the international community.⁸⁸

In the United States, "two federal agencies - the U.S. Department of Agriculture's (USDA's) Food Safety and Inspection Service (FSIS) and the U.S. Department of Health and Human Services' Food and Drug Administration (FDA) – are primarily responsible for the [United States] government's food regulatory system."⁸⁹ Both of these agencies will likely play a vital role in assisting their Chinese counterparts in improving the quality of imports from China to the United States and other nations. The FSIS should seek to assist China's General Administration of Quality Supervision, Inspection and Quarantine

⁸⁸ "Stoking Protectionism: Substandard Exports from China Provoke Protectionist Responses."

⁸⁹ Becker, "Food and Agricultural Imports from China," 4.

in developing equivalent standards to the United States for the inspection meat and poultry producers. If China can establish a level of protection that is a least equivalent to the United States' system, then China can further expand its food exports to the United States.⁹⁰

Table 4. U.S. Imports of Selected Products from China: 2006.⁹¹

Product Description	Imports From China (\$ millions)	China's Rank as a Source of Imported Product	Imports From China As a % of Total U.S. Imports (%)
Fish and other marine products (fresh, chilled, or frozen, excluding canned)	1,695	1	19.8
Animal foods	135	2	23.8
Pharmaceuticals & medicines	698	16	1.1
Toothpaste	3.3	6	3.5
Tires	1,896	1	22.0
Dolls, toys, and games	14,593	1	86.0

Although the FDA does not use the equivalence-type approach on Chinese imports, it does have the ability visit foreign facilities and inspect their operations, when permitted by a foreign government.⁹² Hence, the FDA could assist China's State Food and Drug Administration and China's General Administration of Quality Supervision, Inspection and Quarantine by training each of these agencies with standards and techniques used by the FDA to inspect manufacturers and producers in China. Likewise, members of these Chinese agencies could travel to the United States to learn and gain experience from the FDA in the conduct of inspections on manufacturers in the United States. As recently as 2 August 2007, representatives of the United States' Food and Drug Administration were in China conducting high-level talks about food and drug safety

⁹⁰ Becker, "Food and Agricultural Imports from China," 5.

⁹¹ Morrison, "Health and Safety Concerns over U.S. Imports of Chinese Products: An Overview," 3.

⁹² Becker, "Food and Agricultural Imports from China," 6.

with their Chinese counterparts.⁹³ These talks are likely to yield cooperation by both agencies from the United States and China that will improve the product safety regime in China over the coming years.⁹⁴

B. COOPERATIVE INTERNATIONAL EFFORTS TO IMPROVE FOOD SAFETY

China has cooperated with international committees and U.S. government agencies in a joint effort to improve its product safety record. Of particular note, there were no incidents of food contamination noted throughout the Beijing Olympics in 2008. Furthermore, China has also worked with the U.S. Consumer Product Safety Commission and the U.S. Food and Drug Administration to improve its regulatory functions that protect U.S. consumers.

1. Beijing Olympic Food Safety Expert Committee

In the wake of the Beijing Summer Olympics of 2008, there were no reports of food contamination, illness, or death for any of the international Olympic participants or spectators. China's food safety surrounding the Olympics resulted from Beijing's deliberate effort to protect and monitor the city's food supply for over a year before the Olympics. A lapse in food safety for the 10,000 athletes, 22,000 international journalist, and hundreds of thousands visiting spectators would have been a public relations and economic nightmare for Beijing during the Olympics.⁹⁵ In order to prevent this catastrophe, China established the Beijing Olympic Food Safety Expert Committee that consisted of a 15 member international board of food safety and inspection experts.⁹⁶ One of the board's experts, Professor Yifen Wang, made the following observations prior to the Olympics:

⁹³ Cha, "A Tough Trek toward Common Ground in China; Paulson Sets out to Ease Tension by Sticking to Areas of Agreement."

⁹⁴ Perino, "White House Press Briefing by Deputy Press Secretary Dana Perino."

⁹⁵ Creamer and Martin, "Auburn University Professor Helps Ensure Food Safety for Olympics."

⁹⁶ Creamer and Martin, "Auburn University Professor Helps Ensure Food Safety for Olympics."

A huge amount of food will be served during the 60 days, starting prior to the opening of the Olympic Village through the Olympic Games. In addition, the Olympics will be held in summertime, a peak period for the outbreak of food borne illness. The volume of food being prepared for the Olympic Village and concessions includes 330 tons of fruits and vegetables, 130 tons of meat, 82 tons of seafood, 21 tons of cheese and 19 tons of eggs. There is great pressure on us to ensure that all foods that enter the athletes' village, media villages, main press center, and international broadcasting center at the games are safe. We are confident that the security program has been established is a very good, highly effective system.⁹⁷

Even though this special food safety system for the Olympics required the use radio frequency identification tags and global positioning devices, China navigated the Olympic Games without any negative reports with respect to food safety issues.⁹⁸

2. China's Cooperation with U.S. Agencies to Improve Consumer Product Safety

The U.S. import market remains a vital link to China's economic rise, so China has cooperated with numerous U.S. agencies to appease U.S. policy makers and improve China's consumer product safety regime. As of 2007, the U.S. imports more goods from China than any other country.⁹⁹ As Morrison notes, "...imports from China totaled \$321.5 billion, accounting for 16.5% of total U.S. imports in 2007 (up from 6.5% in 1996)."¹⁰⁰ At the 2007 U.S.-China "Strategic Economic Dialogue" (SED), Chinese officials and U.S. officials concluded several agreements to assuage the concern of U.S. consumers over products produced in China in order to prevent a decline in China's market share of exports to the United States.¹⁰¹ A significant number of agreements

⁹⁷ Creamer and Martin, "Auburn University Professor Helps Ensure Food Safety for Olympics."

⁹⁸ Creamer and Martin, "Auburn University Professor Helps Ensure Food Safety for Olympics."

⁹⁹ Wayne M. Morrison, "China-U.S. Trade Issues," in *CRS Report for Congress* (Washington, D.C.: Congressional Research Service, 20080307 - March 7, 2008), 6.

¹⁰⁰ Morrison, "China-U.S. Trade Issues," 6.

¹⁰¹ Morrison, "China-U.S. Trade Issues," Summary.

included cooperation between U.S. product safety agencies and their Chinese counterparts in order to stem the flow of substandard goods into the U.S. consumer market.

a. U.S. Consumer Product Safety Commission's Program Plan – China

The U.S. Consumer Product Safety Commission has adopted a program plan and signed a memorandum of agreement with the General Administration of Quality Supervision, Inspection, and Quarantine of the People's Republic of China in order to stem the flow of harmful products into the U.S. consumer market. Extensive cooperation, education, and open communication with its large international trading partners have provided China with one method of restoring international consumer faith in the "Made in China" label. The U.S. Consumer Product Safety Commission has the credibility and tools to provide the Chinese government and manufacturers with quality training and viable solutions to suit many of the productions challenges that have recently plagues the Sino-U.S. trade relationship. The Office of International Programs and Intergovernmental Affairs of the U.S. Consumer Product Safety Commission summarize the commission's mission and ability to assist in product safety matters in the United States as follows:

Since 1972 the U.S. Consumer Product Safety Commission (the "Commission" or "CPSC") has been charged with protecting the public against unreasonable risks of injury associated with consumer products, assisting consumers in evaluating the comparative safety of consumer products, and promoting research and investigation into the causes and prevention of product-related deaths, illnesses, and injuries.¹⁰²

It is interesting to note that the U.S. Consumer Product Safety Commission has only existed for approximately four decades even though the United States has been an industrialized country for well over a century. Regardless, U.S. consumers expect China to meet quality and safety standards that have become the standard in industrialized

¹⁰² Paul Gutierrez, Kevin Robinson, and Laurie Hopkins, "U.S. Consumer Product Safety Commission: International Consumer Product Safety Program 2007 China Program Plan," U.S. Consumer Product Safety Commission, <http://www.cpsc.gov/BUSINFO/intl/china07.pdf>. (accessed September 2008).

nations even though China's own industrialization and export market approach is only three decades old. Nevertheless, the U.S. Consumer Product Safety Commission offers China's consumer product safety regime and Chinese manufacturers best practices, monitoring, and experience that will assist China in restoring the international market's faith in products from China.

The U.S. Consumer Product Safety Commission derived its China Program from two agreements between the U.S. Consumer Product Safety Commission and the General Administration of Quality Supervision, Inspection, and Quarantine of the People's Republic of China. First, the "Memorandum of Understanding" was signed on 21 April 2004 "in order to protect the health and safety of [Chinese and American] consumers."¹⁰³ Gutierrez, the Acting Director of the Office of International Programs and Intergovernmental Affairs for the U.S. Consumer Product Safety Commission, highlights the focus areas within the Memorandum of Understanding:

The MOU pledges the signatories to seven specific areas of cooperation: (1) Exchanges of scientific, technical and regulatory information; (2) Agreement on a list of consumer products for cooperation; (3) Exchange of information on emerging consumer product issues; (4) Consultation on consumer product safety issues relating to specific products that are manufactured in one signatory country and sold in the other; (5) Consideration of inspections results obtained by laboratories by the other country; (6) Training of laboratory and inspection personnel, and (7) Development of a Plan of Action for Cooperation.¹⁰⁴

Second, "The Plan of Action for Cooperation" signed on 30 August 2005 "establish[ed] a mechanism for communication and coordination between [the General Administration of Quality Supervision, Inspection, and Quarantine of the People's Republic of China and the U.S. Consumer Product Safety Commission Staff]" and "create[d] a process for bilateral cooperation through the creation of working groups in specific consumer

¹⁰³ Colin Church et al., "Memorandum of Understanding between the U.S. Consumer Product Safety Commission and the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China," U.S. Consumer Product Safety Commission, <http://www.cpsc.gov/BUSINFO/intl/chinamou.pdf>. (accessed September 2008).

¹⁰⁴ Gutierrez, Robinson, and Hopkins, "U.S. Consumer Product Safety Commission: International Consumer Product Safety Program 2007 China Program Plan."

product industry segments.”¹⁰⁵ Finally, China and the United States have also agreed to hold a “biennial Sino-U.S. Consumer Product Safety Summit.”¹⁰⁶ These two agreements and the biennial summit form the backbone of China’s attempt to improve the quality of its consumer product safety regime through specific cooperation with the U.S. Consumer Product Safety Commission.

The most critical aspects of these agreements involve the training of quality inspection personnel in China, exchanges of quality assurance practices and technology, and finally the Sino-U.S. Consumer Product Safety Summit. Unfortunately, since both agreements have been in place the U.S. Consumer Product Safety Commission reports that “...from January-December 2007, over four-fifths of CPSC recall notices have involved Chinese products.”¹⁰⁷ The number of recalls for Chinese imports remains disproportionately high, even though China’s exports to the United States reached \$321.5 billion in 2007.¹⁰⁸

b. U.S. Food and Drug Administration – China Partnerships

In addition to the U.S. Consumer Product Safety Commission, China’s government has also collaborated with the U.S. Food and Drug Administration on issues related to China’s consumer product safety regime. The U.S. Food and Drug Administration provides an overview of its general mission in protecting U.S. consumers and its specific role with China. Imports of over \$2 trillion dollars and 25 percent of an American’s income used to pay for products protected by the FDA leaves the FDA in a lurch with only approximately 680 qualified inspectors capable of

¹⁰⁵ Gutierrez, Robinson, and Hopkins, "U.S. Consumer Product Safety Commission: International Consumer Product Safety Program 2007 China Program Plan."

¹⁰⁶ Gutierrez, Robinson, and Hopkins, "U.S. Consumer Product Safety Commission: International Consumer Product Safety Program 2007 China Program Plan."

¹⁰⁷ Morrison, "China-U.S. Trade Issues," 9.

¹⁰⁸ Morrison, "China-U.S. Trade Issues," 2.

inspection on one percent of imports into the United States.¹⁰⁹ Collaboration and cooperation between the U.S. Food and Drug Administration – a branch of the U.S. Department of Health and Human Services – and the General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China will play a key role in the resolution and prevention of product safety lapses resulting from China’s fledgling consumer product safety regime.

At the conclusion of six months of bilateral discussions between officials from the U.S. Food and Drug Administration, the Chinese Food and Drug Administration, the U.S. Department of Health and Human Services, and the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) of the People’s Republic of China, the arbitrators established two memoranda of agreement between China and the United States to govern the product safety oversight and standards for food and medical imports to the United States. The Secretary of Health and Human Services, Mike Leavitt, set forth an overview of a memorandum of agreement between China and the United States. The memorandum of agreement set clear deadlines, actions, and policies that the Chinese must meet in order to continue to provide household goods

¹⁰⁹ Jason Woo, "Panel III: Challenges for the American Regulatory System," in *8th Annual Travers Conference on Ethics and Accountability in Government: Holding China Accountable? Protecting Consumers in Global Markets* (University of California, Berkeley: October 10, 2008); U.S. Food and Drug Administration, "China Partnerships," U.S. Food and Drug Administration, <http://www.fda.gov/oc/initiatives/advance/china.html>. (accessed September 2008). FDA Notes: "This year more than \$2 trillion worth of products are expected to be imported into the United States from around the world. FDA works closely with counterpart agencies in many other countries to help assure that FDA-regulated products coming into the United States meet the standards of safety and quality that Americans expect. These products include food and animal feed, human and animal drugs, cosmetics, medical devices, vaccines and other biological products, and radiation-emitting goods. FDA and its Chinese counterparts are developing agreements to increase cooperation and information sharing between the U.S. and Chinese governments. These agreements are aimed at protecting the public health and providing safe products to U.S. consumers."

to American consumers.¹¹⁰ Secretary Leavitt's statement addresses the U.S. Department of Health and Human Services' effort to encourage China's product safety regulatory bodies to set forth a system that would allow for place of origin controls that monitor and isolate defective food and drug products at the earliest possible point in the supply-chain. It is prohibitively expensive for the U.S. Food and Drug Administration to inspect a substantive sample of imports to provide reasonable assurance that food and drug imports are safe for public consumption.¹¹¹ No inspection and monitoring system can assure 100 percent quality and safety, yet the agreements between the two primary food and drug safety agencies of the United States and China at least represent movement in the right direction if the agreement is followed up with action.

C. RECOMMENDATIONS TO IMPROVE CHINA'S INTERNATIONAL INTERAGENCY COOPERATION ON CONSUMER PRODUCT SAFETY ISSUES

1. International Interagency Cooperation

China's government has made remarkable advances in its cooperation with both the U.S. Food and Drug Administration and the U.S. Consumer Product Safety

¹¹⁰ U.S. Department of Health & Human Services, "Statement by Secretary Mike Leavitt, Secretary of Health and Human Services, on Signing Memoranda of Agreement between the United States and the People's Republic of China to Improve the Safety of Food, Feed, Drugs and Medical Devices," U.S. Department of Health & Human Services, <http://www.hhs.gov/news/press/2007pres/12/pr20071211a.html>. (accessed September 2008). Mike Leavitt summarizes the memoranda of agreement between China and the United States on the issues of product safety: "Six months ago, my colleagues in China and I began a conversation about how we could improve the safety of the food and health products upon which our two countries have come to rely. Four sets of formal talks followed, and today [11 December 2007,] we signed two important Memoranda of Agreement, one concerning food and feed, and the other drugs and medical devices. These strong, action-oriented documents require specific steps and set clear deadlines. Taken together, these agreements will enhance the safety of scores of household items the American people consume on a daily basis. The agreements satisfy our firm principle that any country that desires to produce goods for American consumers must do so in accordance with American standards of quality and safety."

¹¹¹ U.S. Food and Drug Administration, "Ensuring the Safety of Imported Products: Q & A with Deborah Ralston," U.S. Food and Drug Administration, <http://www.fda.gov/consumer/updates/imports101207.html>. (accessed September 2008). – Ralston responds to question: "Question: FDA inspects or samples less than 1% of all FDA-regulated products seeking entry into the United States. Why doesn't the agency do more? Answer: Because of the tremendous volume of imports – about \$2 trillion worth of products each year from more than 150 countries – we cannot physically inspect or examine every product entering the United States. We use a targeted, risk-based approach, which means that we're working to inspect the right imports – those that may pose a significant public health risk."

Commission in an effort to improve China's consumer product safety regime. Beijing's ability to successfully host the Olympics with no major food or drug product safety lapses demonstrates China's ability to protect both its domestic and international market; however, China must continue to develop rigorous standards of protection without the incentive of major international events such as the Olympic Games. Both the United States and China should be lauded for their growing cooperation on matters of product safety, yet the work of each nation must continue in order for the relationship to bear long-term results.

a. Recommendations

- Allow for greater transparency between major trading partners – the United States, the European Union, and Japan – by permitting periodic inspections of product safety regulators performing their jobs. Additionally, permit foreign product safety regulators to periodically inspect various companies in cooperation with Chinese regulators.
- When a lapse in product safety occurs, Chinese regulators should launch a cooperative investigation into the matter with the affected trading partner's consumer product safety agency. This solution requires a level of transparency that the Chinese Communist Party may be unwilling to offer; however, the measure would assist in restoring confidence in the "Made in China" brand.

b. Barriers to Implementation

Under ideal circumstances, China could depend upon the United States, Japan, and the European Union for earnest cooperation in developing and improving China's consumer product safety regime. Unfortunately, cooperation from international trade partners often hinges upon the degree of a country's self-interest in protecting their own markets from Chinese competition. Additionally, institutions often lag the market, so that in a global economy that has been rapidly grown and altered by information technology and globalization, product safety regulatory regimes in most countries have failed to keep pace with their growing domestic economies. In other words, regulatory agencies are understaffed and underfunded throughout the world, so these agencies have little capacity to support another country in the development of their own consumer

product safety regime.¹¹² Hence, protectionist tendencies and understaffed product safety regulatory regimes prohibit more robust cooperation on product safety issues between China and its major trading partners – the European Union, Japan, and the United States.

c. Practical Recommendations

International cooperation on product safety faces a myriad of challenges that hamper the practicality and efficiency of this recommendation. The best form of international cooperation rests with the education and training that China's major trading partners can provide to Chinese product safety regulators. Regulators from China should attend training with national and international product safety regulatory agencies throughout the world. Chinese regulators should then return to China with the goal of applying international product safety regulations and best practices within the unique context of the Chinese economy.

¹¹² Woo, "Panel III: Challenges for the American Regulatory System." Note: Dr. Jason Woo represents the Office of Compliance, Center for Drug Evaluation and Research, U.S. Food and Drug Administration. Woo notes: Despite the growth of imports from India and China, the FDA has received no additional funding or personnel over the last seven years; however, over the last year the FDA has grown in personnel and funding in response to recent problems with Chinese food and drug imports. Compounding the problem of staffing and funding, the FDA does not have unfettered access to Chinese producers. Even when the FDA gains access to a Chinese producer, the FDA inspector is often hampered by inadequate time and unreliable translators. Finally, even if the FDA gained complete access to all drug manufacturers that import to the United States, it would take the agency approximately 13 years to complete inspections on each of the producers.

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IV. BEIJING SHOULD EXPLORE NONREGULATORY SOLUTIONS (INFORMAL/INTERNAL RESPONSE)

A. OVERVIEW FOR AN INFORMAL/INTERNAL RESPONSE

1. Adopt International Standards

Product safety reforms will also flourish in the form of informal (non-regulatory) solutions that aim to improve the business practices of China's manufacturers and producers. These companies can assist the restoration and strengthening of the "Made in China" label by adopting the following practices: supply chain management, quality assurance standards, employee training on product safety requirements, and a sense of corporate accountability.

An immediate improvement in each of these areas would result if Chinese food producers implemented International Standard for Organization (ISO) 22000. As already noted ISO 22000 is specifically designed to raise the standards of "food supply chains worldwide and part of a wider series of planned international systems for safety management."¹¹³ Adoption of this standard would provide international consumers with an auditable standard with clear requirements.¹¹⁴ As a result of this practice, China could ensure the safety and quality of food for both the domestic and export market.

An alternative to ISO 22000 to support Chinese producers is Six Sigma. The latter provides a quality control methodology that has increased the profits of the world's top corporations by a collective \$100 billion over the past ten years.¹¹⁵ The spread of Six Sigma practices throughout a growing number of *Fortune 500* companies involves a focus on production and manufacturing and has simplified training and provided a broad

¹¹³ Frost, "I.S.O. 22000 Is First in Family of Food Safety Management System Standards," 16.

¹¹⁴ Frost, "I.S.O. 22000 Is First in Family of Food Safety Management System Standards," 18.

¹¹⁵ Craig Gygi, Neil DeCarlo, and Bruce Williams, *Six Sigma for Dummies* (Hoboken, NJ: Wiley Pub., 2005), 1.

base of literature on the subject.¹¹⁶ While Six Sigma may not be appropriate for small companies in China, it is certainly reasonable to expect that it would be effective for large international companies based in China.

However, the implementation of such international standards requires a major up-front capital investment that most Chinese companies cannot afford. A complex struggle between quality and price was at the center of China's recent bout of consumer product safety issues. Large multinational corporations demand that Chinese companies keep their price low, yet these same multinational corporations also demand that Chinese companies raise their product quality and ensure product safety requirements are met.¹¹⁷ Unfortunately, the strong pressure to produce low cost goods has likely encouraged some Chinese suppliers to cut corners on product safety issues.¹¹⁸

In order to assist Chinese companies in resolving the dilemma between maintaining or improving product quality and keeping costs low, two things must occur:

- Multinational corporations have to accept the fact that the "China price" must rise as Chinese companies face higher costs for labor, raw materials, taxes, environmental protection, and quality assurance to improve product safety.¹¹⁹
- China's central government must assist Chinese companies with the adoption of international production standards through financial incentives.

2. Implement Lessons from Japan

Japan has been recognized as a leader in product safety and quality over the past three decades; however, in the immediate post-1945 era Japan's economy experienced

¹¹⁶ Gygi, DeCarlo, and Williams, *Six Sigma for Dummies*, 1.

¹¹⁷ Ted C. Fishman, *China, Inc.* (New York, NY: Scribner, 2005), 157.

¹¹⁸ "Product-Quality Scandals Persist."

¹¹⁹ Fishman, *China, Inc.*, 177. – "Over much of the business world, the term *China price* has since become interchangeable with *lowest price possible*. The China price is part of the new conventional wisdom that companies can move nearly any kind of work to China and find huge savings. It holds that any job transferred there will be done cheaper, and possibly better."

many of the same problems that China is currently experiencing in product quality and safety. Adaptation of statistical quality control spurred the development of Japan's outstanding quality and safety regime.¹²⁰ Hence, China would likely realize the same benefits if it adopts statistical quality control as an industry standard. Unfortunately if China implements statistical quality control, the gains will take a long time to realize, and the initial costs of implementation will be high. However, the rewards are great.

B. INTERNATIONAL PRODUCT SAFETY STANDARDS

In recognition of the product safety lapses that plagued China in the early part of 2007, the Chinese government released a white paper entitled *The Quality and Safety of Food in China*.¹²¹ The white paper details how food safety in China is regulated and tracked from source to consumer, and the system appears to be comparable to other industrialized countries. Unfortunately, product safety lapses with respect to both food and drugs continue to occur. ISO 22000 provides an internationally recognized system to ensure food safety, yet it may be too expensive, cumbersome, and difficult for Chinese companies to reasonably implement in the near future. On the other hand, Six Sigma has been more successful and less costly, so perhaps China can invest in training individuals to become disciples of the quality based management practices that it espouses. Ultimately, standards of any sort will prove useless unless earnestly implemented by China's corporations and enforced by China's government.

1. Existing Food and Drug Product Safety Standards in China

China claims to have a robust food safety regulatory system that monitors food production from the source to the consumer.¹²² DeWoskin highlights China's defense of its food safety record with empirical evidence:

¹²⁰ DeWoskin, "The 'Made in China' Stigma Shock," 9.

¹²¹ China's State Council Information Office, "White Paper on Food Quality and Safety."

¹²² China's State Council Information Office, "White Paper on Food Quality and Safety."

In mid August [2007] the [Chinese] State Council issued a “White Paper on Food Quality and Safety.” In defense of China’s food-export record, it notes that even Japan rated China’s exports as the most highly acceptable among all of its imported foods. Even though Japan conducted more sample surveys on Chinese food than that from anywhere else, it had the highest acceptance rate at 99.42%. In 2006 and the first half of 2007, the acceptance rate of Chinese food shipments to the U.S. was 99.2% and 99.1%, respectively. In the case of the EU, the figures were 99.9% and 99.8%, respectively.¹²³

In order to ensure this level of food quality, China implemented several measures to protect consumers. First, the Hazard-Free Food Action Plan reduces highly toxic residues from agricultural pesticides and eliminated the use of illegal pesticides in food production.¹²⁴ Second, food producers are now required to be licensed under the production license system, and food producers are also required to label items with a “QS” label to symbolize the passage of compulsory quality inspections prior to an item being placed on the market for consumption.¹²⁵ Third, a food recall system has been implemented to notify consumers and recall dangerous food products from the market whenever a lapse in the quality inspection process occurs.¹²⁶ Finally, China’s government emphasizes the principles of “prevention first, supervision at the source, and control throughout the process” in order to ensure the quality of food exports from China.¹²⁷ China’s government has created a satisfactory quality control system to protect consumers from tainted or dangerous food products; however, the system remains flawed. There is a major shortage of government inspectors and poor government oversight remains widespread. More broadly the government and the corporate sector continue to display an often disingenuous commitment to quality and safety. Finally endemic corruption at all levels of Chinese government and society hampers from the outset virtually any initiative, no matter how rigorous it might be on paper.

¹²³ DeWoskin, “The ‘Made in China’ Stigma Shock,” 10.

¹²⁴ China’s State Council Information Office, “White Paper on Food Quality and Safety.”

¹²⁵ China’s State Council Information Office, “White Paper on Food Quality and Safety.”

¹²⁶ China’s State Council Information Office, “White Paper on Food Quality and Safety.”

¹²⁷ China’s State Council Information Office, “White Paper on Food Quality and Safety.”

2. Potential for ISO Standards in China

The International Organization for Standardization (ISO) consist of a network of national standards institutes in 157 countries that comprise the “world’s largest developer and publisher of International Standards.”¹²⁸ The organization provides a wide array of standardization procedures related to topics ranging from simple manufacturing processes to food and drug safety. The procedures developed by the ISO draw upon experienced field experts, governments of industrialized nations, and the United Nations. ISO touts the organization’s ability to leverage product quality and safety from its well-tested and internationally recognized process of standardization of consumer product safety features in the global business market.¹²⁹ China has the potential to reap enormous economic benefits from increased international trade in high-value items through the adoption of ISO standards, yet China’s government, its manufacturers, and producers must be willing to bear the costs of implementation, development, enforcement, and training required to achieve internationally recognized production standards.

China’s ability to safeguard consumers through the implementation if ISO standards has real potential to provide the country with greater trade, an enhanced reputation as a producer in the consumer market, and access to innovative technologies that would make product quality control more manageable. If the brand, “Made in

¹²⁸ International Organization for Standardization, "About ISO," International Organization for Standardization, <http://www.iso.org/iso/about.htm>. (accessed September 2008).

¹²⁹ International Organization for Standardization, "About ISO." ISO highlights the importance of standardization across industries and nations: “Standards make an enormous and positive contribution to most aspects of our lives. Standards ensure desirable characteristics of products and services such as quality, environmental friendliness, safety, reliability, efficiency and interchangeability – at an economical cost. When products and services meet our expectations, we tend to take this for granted and be unaware of the role of standards. However, when standards are absent, we soon notice. We soon care when products turn out to be of poor quality, do not fit, are incompatible with equipment that we already have, are unreliable or dangerous. When products, systems, machinery and devices work well and safely, it is often because they meet standards. And the organization responsible for many thousands of standards which benefit the world is ISO. When standards are absent, we soon notice.”; ISO explains how standards benefit trading nations and companies in the following synopsis: “ISO standards: (1) Make the development, manufacturing and supply of products and services more efficient, safer and cleaner. (2) Facilitate trade between countries and make it fairer. (3) Provide governments with a technical base for health, safety and environmental legislation, and conformity assessment. (4) Share technological advances and good management practices. (5) Disseminate innovation. (6) Safeguard consumers and users of products and services. (7) Make life simpler by providing solutions to common problems.”

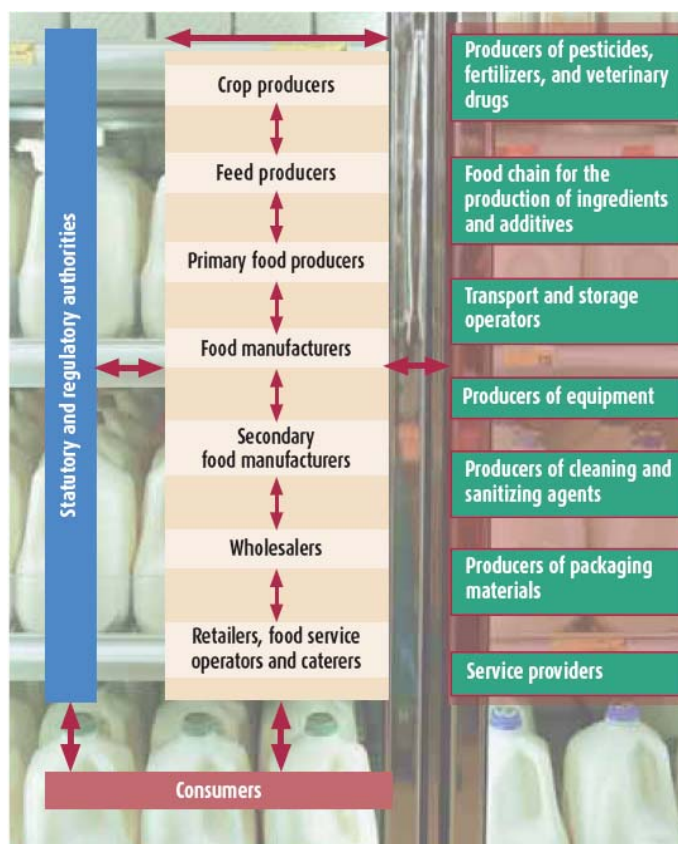
China,” were to increasingly stand for safe consumer goods produced well and sold at a good price, then China has the potential to move up the product value chain into producing more complex items, such as automobiles, for the international market, especially the United States.

ISO 22000 provides standards for all organizations with supply chains for food production.¹³⁰ Developed in conjunction with the United Nation Food and Agricultural Organization (UNFAO) and the World Health Organization (WHO), ISO 22000 assists food producer in complying with the Codex Hazardous Analysis and Critical Control Point (HACCP) system for food hygiene.¹³¹ ISO 22000 monitors quality and sets standards at every level of the food supply chain from the crop producer to the consumer (Figure 4). ISO 22000 offers China’s government the basis for the establishment of a safe food supply chain that is recognized and used by its international trading partners.

¹³⁰ Frost, "I.S.O. 22000 Is First in Family of Food Safety Management System Standards," 16.

¹³¹ Frost, "I.S.O. 22000 Is First in Family of Food Safety Management System Standards," 16.

Figure 4. ISO 22000 Example of Communication within the Food Supply Chain.¹³²



Despite the benefits of ISO 22000, China has not declared that it has any intention of implementing it. Even the recent incident of melamine tainted instant milk that took the lives of four infants and made 53,000 babies seriously ill has not swayed China to adopt ISO 22000.¹³³ Meanwhile, India, partly in response to the negative reaction by China, is adopting ISO 22000 in at least 50 of its food production laboratories to support 10,000 farms by 2009.¹³⁴

¹³² Frost, "I.S.O. 22000 Is First in Family of Food Safety Management System Standards," 17.

¹³³ Ansell, "Introduction: Holding China Accountable? Protecting Consumers in Global Markets," 2.

¹³⁴ "Lessons from China Food Safety Standards to Be Overhauled," in *The Financial Times* (The Financial Times, September 27, 2008).

China will not adopt ISO 22000 or any other ISO standards because it remains trapped as a low-cost producer that faces rising labor rates in a hyper-competitive globalized economy. China's producers are focused on short-term profits instead of long-term gains. Margins on many food and drug products are tight, so the short-term costs of becoming a reputable international producer of consumer goods are very high. At the national level the Chinese government has demonstrated a commitment to product quality improvement through legislation and sporadic incidents of enforcement to placate international trading partners and multi-national corporations. However, at the lower levels the government was, to mention only one well-known incident, complicit in the melamine tainted milk fiasco. In order to correct the product quality problems that plague China, the Chinese government and Chinese producers must accept the short-term costs of standardization, inspection, and enforcement in order to realize the long-term economic benefits that the globalized economy offers a rapidly growing China.

C. POTENTIAL LESSONS LEARNED FROM JAPAN

Although the economic rise of China and Japan differ with respect to the impetus for growth, natural resources, monetary capital, human capital, and historical timing, a review of Japan's quality and statistical control has the potential to assist China in improving its consumer product safety regime. After World War II, "Made in Japan" represented a label that stood for inexpensive, unreliable, substandard goods, yet now "Made in Japan" represents expensive and reliable goods worldwide.¹³⁵ Will "Made in China" carry the same esteem as "Made in Japan" in 2040?

1. Lessons Learned from W. Edward Deming and Japan's Post-World War II Product Quality Revolution

In 1950, Japan's economy lay devastated in the aftermath of World War II. Japan had few natural resources and most of its population lived on less than 1,000 calories per

¹³⁵ W. Edwards Deming, *Out of the Crisis*, 1st MIT Press ed. (Cambridge, Mass.: MIT Press, 2000; reprint, Abstract), 3.; William M. Tsutsui, "W. Edwards Deming and the Origins of Quality Control in Japan," *Journal of Japanese Studies* 22, no. 2 (1996): 300.

day.¹³⁶ In 1945 Japan's GDP had declined to one-third of its pre-war level, yet it managed to regain its pre-war GDP by 1955.¹³⁷ Even more impressively, Japan currently ranks as the second largest economy in the world with a monstrous GDP of \$4.534 trillion.¹³⁸ So how did Japan achieve this amazing economic feat in only six decades, and is it possible for China to do the same?

From 1945 until 1952, General Douglas MacArthur led reconstruction efforts in Japan. His staff included a few Bell Laboratory engineers that provided Japanese engineers with literature on quality control.¹³⁹ The majority of the literature that the Japanese engineers used to develop quality control came from a senior Bell Laboratory engineer, Walter Shewhart.¹⁴⁰ Walter Shewhart has been dubbed the "father of statistical quality control."¹⁴¹ Although W. Edward Deming did not work for Bell Laboratory, he became Shewhart's most recognized student and disciple. In 1950, Deming joined the reconstruction effort in Japan with the specific task of teaching quality control engineering to Japanese manufacturers.¹⁴²

Deming found a receptive audience in Japan, and Japanese engineers soon learned that quality improvements also led to productivity improvements with fewer recalls and a general reduction in defective items.¹⁴³ Deming did not focus on conventional inspections at the end of the manufacturing process; he emphasized the need to design quality into the input side of the process in order to reduce defective products at their point of output. Many of the lessons that Deming brought to Japan in 1950 remain valid in China, America, and other industrialized lessons.

¹³⁶ "Japan: Economy," Encarta, http://encarta.msn.com/text_761566679___36/Japan.html. (accessed September 2008).

¹³⁷ "Japan: Economy."

¹³⁸ *Pocket World in Figures: 2008 Edition*, (London, England: Profile Books Ltd. in association with The Economist Newspaper Ltd., 2008), 26.

¹³⁹ Deming, *Out of the Crisis*, 2.

¹⁴⁰ Tsutsui, "W. Edwards Deming and the Origins of Quality Control in Japan," 297.

¹⁴¹ Tsutsui, "W. Edwards Deming and the Origins of Quality Control in Japan," 297.

¹⁴² Tsutsui, "W. Edwards Deming and the Origins of Quality Control in Japan," 300.

¹⁴³ Deming, *Out of the Crisis*, 2.

a. Deming's 14 Points of Management

In order to teach others his principles of management and quality control, Deming developed 14 key points to guide management (Appendix). These 14 points of management shaped Japan's quality revolution and subsequently its economic rise. Deming's legacy of quality lives on in Japan as evidenced by the world's most profitable carmaker, Toyota. In his book, *The Toyota Way*, Liker highlights the Toyota Production System (TPS) that expresses a twenty-first century derivation of Deming's original 14 points of management.¹⁴⁴ Perhaps the most vital elements of Japan's management legacy is its focus on long-term philosophy of quality over quantity, its aversion to short-term cost reductions, the development of human capital, and the support and supervision of suppliers in forming and maintaining long-term quality focused relationships with the company.¹⁴⁵

2. China's Barriers to Adaptation of Japanese Quality Control Methods

Unfortunately, the likelihood that the Chinese will adopt Japanese management and quality control practices remains slight. First, China has a long history of animosity towards Japan as a result particularly of the abuses suffered by the Chinese during Japan's occupation of Manchuria in the early twentieth century and the brutal and full-scale war on China conducted by Japan from the mid-1930s to 1945. Relationships between the two countries are warming, but it is unlikely that Chinese nationalism and anti-Japanese sentiment will make it easy to view Japan as a role-model in business management or any other capacity. Second, China has achieved three decades of rapid economic growth – as evidenced by GDP – that has averaged approximately 9 percent per year beginning in 1979.¹⁴⁶ China's growth has largely been derived from serving as

¹⁴⁴ Jeffrey K. Liker, *The Toyota Way : 14 Management Principles from the World's Greatest Manufacturer* (New York: McGraw-Hill, 2004; reprint, Abstract).-4

¹⁴⁵ Deming, *Out of the Crisis*, 2-4.; Liker, *The Toyota Way : 14 Management Principles from the World's Greatest Manufacturer*, 2-5.

¹⁴⁶ Shahid Yusuf, Kaoru Nabeshima, and Dwight H. Perkins, *Under New Ownership: Privatizing China's State-Owned Enterprises*, vol. 5 (Palo Alto, CA: Stanford University Press, 2006), 3.

the world's "factory floor" through the utilization of its comparative advantage: its huge pool of high-quality, inexpensive labor.¹⁴⁷ Both the Chinese government and Chinese firms have focused upon economic growth rather than quality production. Economic vitality is crucial to the stability of the Chinese Communist Party, and Chinese firms are driven by large multi-national corporations to provide low cost manufacturing in order to survive in a hyper-competitive globalized economy.¹⁴⁸ These imperatives tend to emphasize short-term economic gains via production short cuts and substandard materials, at the cost of long-term sustainable economic development driven by quality production and material. If China earnestly wishes to protect the "Made in China" label, then it has to focus upon human capital development, improved working conditions for its vast labor pool, and the development of quality control methods that protect consumers, use quality materials and produce well-made goods. It is this that will lead to stable and long-term economic growth.

D. RECOMMENDATIONS FOR CHINA WITH RESPECT TO ADOPTION OF INTERNATIONAL PRODUCT SAFETY STANDARDS AND IMPLEMENTATION OF LESSONS LEARNED FROM JAPAN

1. ISO 22000

Although China attests that it has already implemented quality control standards designed to ensure product safety standards are met from the point of origin to the consumer, numerous product safety incidents have demonstrated flaws within the Chinese government's quality control system.¹⁴⁹ International Standards, such as ISO 22000 and possibly Six Sigma, would improve quality controls and provide an internationally recognized quality control system that China's international trading partners would understand.

¹⁴⁷ Navarro, *The Coming China Wars : Where They Will Be Fought and How They Can Be Won*, 2-5.

¹⁴⁸ Robert Whaples, *Modern Economic Issues* (Chantilly, VA: The Teaching Company, 2007), DVD. – Whaples notes: "In 2005 Wal-Mart purchased 15% of its products from China, so if Wal-Mart were a country it would be China's 8th largest trading partner ahead of Russia, Australia, and Canada."

¹⁴⁹ China's State Council Information Office, "White Paper on Food Quality and Safety."; "Food Regulation in China: The Poison Spreads," *The Economist* 388, no. 8599 (September 27, 2008).

a. Recommendations

- Adopt international quality control standards that conform to the equivalent standards of its dominant trading partners-competitors, such as the United States, the European Union, and Japan.

b. Barriers to Implementation

International quality control standards represent only a portion of the solution to restoring consumer confidence in the “Made in China” brand. Although China has not adopted ISO 22000, Six-Sigma, or even CODEX standards, the Administration of Quality Supervision, Inspection and Quarantine revised over 1,800 food safety standards that led to the closing of 152,000 food producers and retailers in July of 2007.¹⁵⁰ Actions by China’s officials may prove more important than any widely recognized international standard; however, international standards provide assurances and familiar standards to China’s major trading partners. Additionally, China may be unwilling to adopt international standards because of cost and inability to furnish millions of food producers with large volumes of international standards translated into Mandarin or Cantonese languages. Finally, many producers in China consist of less than ten employees, so it is difficult for such small enterprises to implement complex regulation and requirements. One should bear in mind that none of these producers directly supply products for export; however, small producers are subcontracted to produce a major ingredient of an exported product.¹⁵¹ For example, dairy farmers in China typically have three to five cows that produce milk, so these farmers give their milk to larger exporting companies to refine and

¹⁵⁰ Ansell, "Introduction: Holding China Accountable? Protecting Consumers in Global Markets," 10. Ansell notes: "In July 2007, China shut down 152,000 food producers and retailers and revised 1800 food standards. The main standard-setting agency, AQSIQ, also mandated the use of Hazard Analysis and Critical Control Point (HAACP) for industries exporting food in six categories: "canned food, aquatic products [excluding fresh, frozen, air-cured, and pickled/salted products] meat and meat producers, frozen vegetables, fruit/vegetable juice, and frozen convenience food containing meat or aquatic products. The Chinese government punished 429 Chinese export companies for violations of quality standards."

¹⁵¹ Andy Tsay, "Panel I: How Risky Are Consumer Imports from China?," in *8th Annual Travers Conference on Ethics and Accountability in Government: Holding China Accountable? Protecting Consumers in Global Markets* (University of California, Berkeley: October 10, 2008). Note: Dr. Andy Tsay is an Associate Professor at the Leavey School of Business at Santa Clara University. His area of expertise is supply chain management.

export.¹⁵² China's adoption of international quality control standards will evolve only after achieving higher levels of per capita economic success; hence, implementation costs, applicability, and availability remain the primary components that make China's government averse to adopting widely recognized international quality control standards.¹⁵³

c. Practical Recommendations

Although ISO 22000 standards may be too costly to implement, the CODEX standards that have been jointly developed by the Food and Agricultural Organization of the United Nations and the World Health Organization offer highly-specific quality control regulations for food products at no direct cost for access.¹⁵⁴ The quality standards offered by the United Nations are available for download from the United Nations Website, and training on the implementation of the quality control standards are also available on the website.¹⁵⁵ Unfortunately, the standards and training are only available from the United Nations Website in English, Spanish, and French, so the Chinese government would have to fund translation of all materials into Mandarin and Cantonese.¹⁵⁶

¹⁵² Caroline Smith-DeWaal, "Panel III: Challenges for the American Regulatory System," in *8th Annual Travers Conference on Ethics and Accountability in Government: Holding China Accountable? Protecting Consumers in Global Markets* (University of California, Berkeley: October 10, 2008).; Tsay, "Panel I: How Risky Are Consumer Imports from China?."

¹⁵³ Richard P. Suttmeier, "Panel II: Challenges for the Chinese Regulatory Regime," in *8th Annual Travers Conference on Ethics and Accountability in Government: Holding China Accountable? Protecting Consumers in Global Markets* (University of California, Berkeley: October 10, 2008).; Richard P. Suttmeier, "The 'Sixth Modernization': China, Safety, and the Management of Risk," *Asia Policy*, no. 6 (July 2008).

¹⁵⁴ Food and Agriculture Organization of the United Nations and The World Health Organization, "CODEX Alimentarius," United Nations, http://www.codexalimentarius.net/web/index_en.jsp. (accessed September 2008).

¹⁵⁵ Food and Agriculture Organization of the United Nations and The World Health Organization, "CODEX Alimentarius."

¹⁵⁶ Food and Agriculture Organization of the United Nations and The World Health Organization, "CODEX Alimentarius."

2. Lessons from Japan

Additionally, China can cull many lessons from Japan's economic rise after World War II – particularly, the lessons on quality produced by W. Edward Deming. The latter would assist China in restoring international consumer confidence in the “Made in China” brand.

a. Recommendations

- Review the lessons from Japan's quality-based economic rise from 1950s onward.

b. Barriers to Implementation

Although Japan represents one of the best examples of product quality control during the Twentieth Century, older Chinese harbor strong nationalistic and anti-Japanese feeling that resulted from atrocities committed by the Japanese in China from 1937 to 1945, specifically the Nanjing massacre.¹⁵⁷ Additionally, China has long considered itself the center of Asian culture, so it may be hard to look towards Japan for lessons on economic development, specifically in the area of quality assurance.

Additionally, Japan's economic development and quality control regime developed in an era that predated globalization. Deming's methods may no longer be the fundamental process to achieve quality assurance. Great strides have been made with respect to best practices in quality control over the last five decades. For example, the Toyota Production System is now widely viewed by business professionals as the hallmark of statistical quality control and business systems.¹⁵⁸ Again, pride may prevent China

¹⁵⁷ "Rape of Nanjing," Century China, <http://www.centurychina.com/wiihist/njmassac/rape.htm>. (accessed September 2008).

¹⁵⁸ Tsay, "Panel I: How Risky Are Consumer Imports from China?."; Liker, *The Toyota Way : 14 Management Principles from the World's Greatest Manufacturer*, 3-5. Liker annotates Toyota's 14 principles of business: "1. Apply a long-term philosophy; 2. Create continuous flow; 3. Use 'pull' systems and avoid overproduction; 4. Level the workload; 5. Build the right culture; 6. Standardize tasks; 7. Use visual control; 8. Use only tested technology; 9. Grow leaders who live the philosophy; 10. Develop people and teams; 11. Respect your extended network; 12. Observe the source; 13. Decide slowly, implement rapidly, and 14. Practice relentless reflection."

from adopting a Japanese systems of management and quality control, yet it is not unreasonable to assume that China would benefit from either Deming's or Toyota's principles of management and quality control.

In summary, China would benefit from Japanese developed quality control systems; however, regional animosities, nationalistic pride, and political tensions would likely prevent China's central government and producers from whole-heartedly embracing Japanese business principles.

c. Practical Recommendations

In order to save face and advance China's economic development, China's central government should develop quality control systems based upon the highlighted Japanese business and quality control principles; however, China's central government should claim that the initiative and principles developed from Sino-culture. This approach would prevent the hindrance of Chinese economic development caused by nationalistic pride and animosity towards Japan. Unfortunately, this only solves one aspect of the problem.

Perhaps the most difficult challenge to the China's producers would be the implementation of these advanced quality control and business practices that require a producer to place a premium on quality production and an emphasis on long-term organizational objectives. China's producers appear to be trapped in a period of development that emphasizes short-term economic gains at any cost.

In summary, China's producers will only be able to adopt Japanese management and quality control principles when economic incentives for quality production processes outweigh the cost reductions of rapid, low-cost bulk production.

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V. BEIJING SHOULD PRESENT ITS CASE (INFORMAL/EXTERNAL RESPONSE)

A. OVERVIEW FOR AN INFORMAL/EXTERNAL RESPONSE

1. Permit Media Coverage

The Chinese central government sporadically cooperates with the media and non-governmental organizations that promote consumer protection in order to identify potential consumer safety violations and to ferret out corrupt businesspersons or officials. The media has played an essential role in uncovering the plight of China's rural peasantry and environmental degradation.¹⁵⁹ Hence, the media's role in assisting the central government with the exposure of noncompliant officials and businesspersons will also assist in the quest to improve product safety. Openness and candor upon the matter of product safety by the Chinese central government will only serve to improve and enforce the regulations and standards of China's product safety regime.

2. Improve Public Relations to Overcome Sensationalism

China must present its side of the case in the international debate over its consumer product safety regime. A public relations campaign should convey these messages:

- China has almost a 99% acceptance rate for its exports in most developed countries.¹⁶⁰
- China should acknowledge the extent of the problem with its consumer product safety regime, while taking vigorous corrective actions to alleviate the problems.

¹⁵⁹ Chen and Chuntao, *Will the Boat Sink the Water?: The Life of China's Peasants*, 19-22, 41-43, and 49.

¹⁶⁰ Xiangwei, "Product Safety Flap Has Upside for Mainlanders."

Messages like these have and will aid in defeating some of the sensationalism that has driven the international media to focus so heavily on this issue. Additionally, it will help restore the confidence of pragmatic consumers and manufacturers in the “Made in China” label.

3. Resolve Protectionism

China must not irrationally stop products coming in from the United States and other countries in a tit-for-tat response to possible bans on Chinese products in the United States.¹⁶¹ Trade bans on certain products could lead to unnecessary trade wars, and no one would benefit. Therefore, diplomatic and business efforts must go forth in resolving American and international concerns over China’s consumer product safety regime. If diplomatic and business efforts are successful, then the product safety concerns can be resolved on all sides without a trade war.

B. MEDIA: A TOOL TO EXPOSE PRODUCT SAFETY ISSUES

The Chinese Communist Party controls freedom of speech and freedom of the press in order to maintain political stability and minimize social unrest in the most populous nation in the world.¹⁶² Beijing has already permitted greater media access and freedom when it serves the central governments objective. For instance, provincial-, township-, and village-level Chinese Communist Party officials have received extensive media coverage for their abuse of peasants, over taxation, and corrupt practices in general.¹⁶³ Unfortunately, the central government has failed to realize the leverage the media could have in an effort to enforce China’s consumer product safety laws. Information represents power, and the central government fears that negative media attention on the quality control of Chinese consumer goods could lead to a slowdown in

¹⁶¹ Becker, "Food and Agricultural Imports from China," 15.

¹⁶² Thomas Lum, "Social Unrest in China," in *CRS Report for Congress* (Washington, D.C.: Congressional Research Service, May 8, 2006), 9.

¹⁶³ Chen and Chuntao, *Will the Boat Sink the Water?: The Life of China's Peasants*, 19-22, 41-43, and 49.

the country's booming export business. A slowdown may occur as short-term side-effect of a loss of confidence in many China's production processes; however, long term benefits would restore international confidence in China's consumer product safety regime and lead to sustainable export demand after safety issues are exposed and corrected.

Although the Chinese Communist Party exposes itself to political vulnerabilities, media outlets, such as the press and the internet, should be allowed to carry more information about corporate and official misconduct that threatens consumer product safety. Media coverage serves as a force multiplier in support of the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) of the People's Republic of China. At a minimum, the central government should not suppress information about tainted food products that threaten a globalized food supply network. In the September 2008 melamine-tainted milk scandal, reports of product safety problems were made by consumers to the manufacturer as early as December 2007; however, the Chinese company took no action and did not inform the government.¹⁶⁴ In a more permissive media environment, consumers who noted problems could have reported problems with the milk via the internet or the press, and perhaps illness and death among these children could have been avoided.

C. PUBLIC RELATIONS: GUIDELINES FOR RESTORING THE “MADE IN CHINA” BRAND IMAGE

A brand represents how consumers perceive a company's (or a country's) product.¹⁶⁵ Although China is not a company, it does have a brand image associated with the “Made in China” label. China represents a partial anomaly because companies are normally associated with branding. For instance, when a consumer sees a Toyota product, the consumer does not necessarily associate the product with Japan. On the other hand,

¹⁶⁴ “China and Food Safety,” Public Radio International, <http://www.pri.org/health/Global-Health/china-milk-scare.html>. (accessed September 2008).

¹⁶⁵ David F. D'Alessandro and Michele Owens, *Brand Warfare: 10 Rules for Building the Killer Brand: Lessons for New and Old Economy Players* (New York: McGraw-Hill, 2001; reprint, Abstract), 1.

China's competitive advantage currently relies upon an abundant, inexpensive, and efficient source of labor, so China's current role in the globalized economy is primarily as the site for outsourced manufacturing and production by multinational corporations. In essence, a consumer buys the Apple brand of computer because it symbolizes quality and innovation, yet the actual item was manufactured or assembled in China. Hence, the "Made in China" label is a brand, and it must be protected by the Chinese government, Chinese producers, and multinational corporations in order to ensure sustained economic success for all concerned.

Unfortunately, the positive image that China constructed during the Beijing 2008 Summer Olympic Games has been severely hampered by the tainted milk scandal that began in September 2008. The Economist reports, "A survey by Interbrand, a consultancy, shows that the post-Olympic improvement in the perception of the "Made in China" brand has been wiped out by the [melamine tainted milk] scandal."¹⁶⁶ So how does China begin to restore its brand image? To begin with, and in contrast to the secretive nature of the Chinese Communist Party, scandals should be dealt with in an open international forum that permits media coverage, which can effectively evaluate and uncover problems with product safety. In the most recent melamine tainted milk scandal, several reports complained that China's government thwarted the media's attempts to gain direct access to company and government officials associated with the debacle. Additionally Chinese journalists are suppressed by the Chinese government.¹⁶⁷ Consumers are less likely to trust products made in China, so the Chinese economy will suffer a decrease in demand with respect to certain products. In June 2008, the Federal Reserve Bank of San Francisco concluded that "recalls of consumer products

¹⁶⁶ "Food Regulation in China: The Poison Spreads," 77.

¹⁶⁷ Paul Mooney, "'Made in China' Label Spurs Global Concern," Yale Center for the Study of Globalization, <http://yaleglobal.yale.edu/display.article?id=9579>. (accessed September 2008).

manufactured in China did have an adverse effect on U.S. imports from China.”¹⁶⁸ Substantive changes by the Chinese government have to be made in order to curb this trend.

The primary measure in repairing the tarnished “Made in China” brand relies upon government and corporate accountability from China’s economic stakeholders. In an age of information proliferation via the media, internet, and mobile communication devices, the control of information remains an illusive enterprise for companies and governments alike. Consumers report product safety violations, so it is in China’s best economic and public relations interest to admit mistakes to the international public in a rapid and responsible manner.¹⁶⁹ Any delay in reporting a lapse in product safety jeopardizes consumers’ health and generates mistrust of the “Made in China” brand in the international community. The public can tolerate bad news and honest mistakes; however, the public cannot tolerate corruption and dishonesty in the realm of product safety.

According to the U.S. Consumer Product Safety Commission, China leads the world in the percentage of product recalls in the United States.¹⁷⁰ This will continue to be of particular concern where the hygiene standards involved in the preparation of

¹⁶⁸ Christopher Candelaria and Galina Hale, "Did Large Recalls of Chinese Consumer Goods Lower U.S. Imports from China?," Federal Reserve Bank of San Francisco, <http://www.frbsf.org/publications/economics/letter/2008/el2008-17.pdf>. (accessed September 2008).

¹⁶⁹ D'Alessandro and Owens, *Brand Warfare: 10 Rules for Building the Killer Brand: Lessons for New and Old Economy Players*, 5. – D'Alessandro notes: “If you make a mistake, admit it quickly, because it’s worse to withhold or cover up information. When product tampering caused seven deaths, Tylenol responded quickly by calling for a national recall. It returned to the market only when it had adopted tamperproof packaging.”

¹⁷⁰ Interbrand, "Made in China: 2007 Brand Study," Interbrand, http://www.ourfishbowl.com/images/surveys/Interbrand_Made_In_China_2007.pdf. (accessed September 2008). – Interbrand reports a U.S. Consumer Product Safety Commission statistic: “Over 40% of recalls in the United States in 2007 have been for products from China.”

products, such as food and drugs, is concerned.¹⁷¹ In order to repair the damage to the “Made in China” brand, China must be honest with consumers, reduce corruption, and enforce consumer product safety laws.

D. DISSUADE PROTECTIONIST RESPONSES FROM INTERNATIONAL TRADING PARTNERS

Product safety concerns provide a convenient reason for U.S. legislators to take a strong stand against imports from China. Many congressional leaders want the Bush administration (2000-2008) to take a stronger stance with respect to China on issues that violate acceptable practices within the World Trade Organization or harm U.S. economic interests.¹⁷² Additionally, the trade imbalance between China and the United States grew to \$256 billion in 2007. This figure represents a stark rise from a trade deficit of \$30 billion in 1994.¹⁷³ Americans that are already stricken by a severe economic downturn and growing job losses to outsourcing and innovation may compel U.S. lawmakers to react to short-term lapses in product safety in order to protect the U.S. domestic market from certain imports from China.

If U.S. legislators enact a quality ban against Chinese food or drug imports, China will likely view the quality related ban as a masked form of protectionism.¹⁷⁴ It would only be natural for China to respond in kind to an American ban on Chinese products. “Foreign retaliation” to trade barriers sets the scene for a trade war between two trading partners.¹⁷⁵ Although a quality ban against Chinese imports by the American government may be a protectionist measure in some capacity, China must avoid a response that would

¹⁷¹ Interbrand, “Made in China: 2007 Brand Study.” – Interbrand reports: “The ‘Made in China’ brand has suffered a serious setback; those consumers who know or check the country of origin of a product will think twice for the next several years. This is probably more significant in categories where safety and hygiene are primary purchase drivers such as food, beverage, cosmetics, automobiles and toys.”

¹⁷² Morrison, “China-U.S. Trade Issues,” 1.

¹⁷³ Morrison, “China-U.S. Trade Issues,” 2.

¹⁷⁴ “Stoking Protectionism: Substandard Exports from China Provoke Protectionist Responses.”

¹⁷⁵ Thomas A. Pugel, *International Economics*, 13th ed. (Boston: McGraw-Hill Irwin, 2007), 165. – Pugel defines: “*Foreign retaliation*. If our country has introduced barriers, other governments may retaliate by putting new barriers against our exports.”: Pugel further notes: “The costs would be much higher in the event of a trade war, in which each side counterretaliates with still higher import barriers.”

escalate trade tensions between itself and one of its major importers. Any ban is likely to be temporary. American consumers and large American companies – Wal-Mart, for example – would lobby U.S. lawmakers to reverse the trade ban once the costs of the protectionist measure became evident.¹⁷⁶

E. RECOMMENDATIONS FOR CHINA WITH RESPECT TO SOFT POWER SOLUTIONS AND BRAND IMAGE

1. Media

Although the Chinese government has been reluctant to allow the domestic and international media unfettered access to cover product safety lapses, corruption, and weakness within the consumer product regulatory regime, the media represents a powerful lever that could greatly assist the Chinese government in its effort to improve its reputation for product safety and quality. Historically, the Chinese Communist Party has limited freedom of speech and freedom of the press in order to maintain a tight reign on its populace. Alternatively, the Chinese Communist Party remains in power largely because of the economic success the country has experience over the past three decades. Product quality issues threaten the economic advance of China and the stability of the Chinese Communist Party's rule. If the party permits the media additional freedom, the media is likely to expose corrupt officials and unsafe practices within companies that are potentially harmful to consumers. Additionally, it is almost impossible to keep product safety issues out of the media given the numerous methods of communication from inside China to the outside world. Meanwhile, every incident that is covered-up by the party or company officials, but eventually is exposed, diminishes the faith of consumers in the "Made in China" brand.

a. Recommendations

- Grant the media unfettered access to all matters concerning product safety within China.

¹⁷⁶ Pugel, *International Economics*, 165.; "Stoking Protectionism: Substandard Exports from China Provoke Protectionist Responses."

b. Barriers to Implementation

In 2005 the U.S. Congressional – Executive Commission on China urged the President and Congress to encourage China to remove restrictions on the news media, yet the Chinese Communist Party remains unlikely to remove restrictions on the media that includes media blackouts on certain events that might destabilize the Party's rule in China.¹⁷⁷ China's central government has to evaluate the costs and the benefits of a media that operates with freedom and little fear of reprisal. A free press provides an essential element in a well-functioning product regulatory system.¹⁷⁸ Local officials and producers starve the central government of information; therefore, when problems arise with respect to product quality, the problem has already risen to a level of epic proportions before the central government even has an opportunity to respond.¹⁷⁹ The September 2008 melamine tainted powdered milk scandal provides an excellent example of this form of "information asymmetry."¹⁸⁰ On the other hand, a free press provides information to the people as well as the central government; therefore, this leads the public to pressure the central government for reforms on issues of local governance and product safety.¹⁸¹ If the central government fails to respond to public outcry, then incidents of social unrest are likely to occur, and ultimately social unrest threatens the political stability of the Chinese Communist Party that leads China's central

¹⁷⁷ Lum, "Social Unrest in China," 16.

¹⁷⁸ Jonathan Hassid, "Panel II: Challenges for the Chinese Regulatory Regime," in *8th Annual Travers Conference on Ethics and Accountability in Government: Holding China Accountable? Protecting Consumers in Global Markets* (University of California, Berkeley: October 10, 2008). Jonathan Hassid is a PhD student in the Department of Political Science at University of California, Berkeley. He has just returned from the People's Republic of China where he conducted a one year study on China's media.

¹⁷⁹ Hassid, "Panel II: Challenges for the Chinese Regulatory Regime."

¹⁸⁰ Hassid, "Panel II: Challenges for the Chinese Regulatory Regime." – Hassid defines: "Information asymmetry: information required by the central government to function is withheld by local and provincial level officials."

¹⁸¹ Hassid, "Panel II: Challenges for the Chinese Regulatory Regime."

government.¹⁸² In an effort maintain continuity, China's central government suppresses the media through regulation and market incentives.

First, the central government, local governments, and businesses control journalists through coercion. China has imprisoned more journalists than any other country in the world, so many journalists are too intimidated to report on controversial issues, such as China's consumer product safety issues.¹⁸³ If intimidation fails, then businesses often bribe reporters to bury embarrassing stories.¹⁸⁴ For example, a mining accident occurred at a gold mine in China, so when a few reporters arrived on the scene of the tragedy, the mining company bribed reporters with solid gold bars in order to conceal the story.¹⁸⁵ Coercion and bribery serve local governments and businesses by containing embarrassing or scandalous information that could incur the wrath of the central government or the public.

Second, all news reporting agencies require a license from the General Administration of Press and Publication.¹⁸⁶ Additionally, radio and television operators require a license from the State Administration of Radio, Film, and Television.¹⁸⁷ Finally, internet content providers require a license from the Ministry of Information Industry.¹⁸⁸ China's central government bureaucracy wishes to limit the number of media outlets in China, so the central government issues reporting licenses in a sparing

¹⁸² Lum, "Social Unrest in China," 1. Lum notes: In the long(er) run, social unrest may adversely affect the business climate for foreign investment, the pace of economic reforms (including compliance with [World Trade Organization] (WTO) commitments), political stability in the PRC, and Chinese foreign policy."

¹⁸³ Hassid, "Panel II: Challenges for the Chinese Regulatory Regime."

¹⁸⁴ Hassid, "Panel II: Challenges for the Chinese Regulatory Regime."

¹⁸⁵ Hassid, "Panel II: Challenges for the Chinese Regulatory Regime."

¹⁸⁶ Hassid, "Panel II: Challenges for the Chinese Regulatory Regime."; Congressional - Executive Commission on China, "Agencies Responsible for Censorship in China," Congressional - Executive Commission on China, <http://www.cecc.gov/pages/virtualAcad/exp/expcensors.php>. (accessed September 2008).

¹⁸⁷ Hassid, "Panel II: Challenges for the Chinese Regulatory Regime."; Congressional - Executive Commission on China, "Agencies Responsible for Censorship in China."

¹⁸⁸ Congressional - Executive Commission on China, "Agencies Responsible for Censorship in China."

manner.¹⁸⁹ In addition to the layers of bureaucracy required to obtain a broadcasting or reporting license, each media outlet has to be sponsored by a governmental body that reports to China's central government.¹⁹⁰ This governmental body tacitly monitors the reporting agency; however, the reporting agency could be reprimanded or lose its sponsorship if it reports on an issue that might embarrass China's government or threaten China's economic growth.¹⁹¹ Hence, reporting agencies in China are hamstrung by bureaucratic licensing procedures and the threat of being shutdown for crossing the vague line of censorship.¹⁹²

Finally, financial incentives for reporters work against extensive investigative journalism.¹⁹³ Reporters receive a small base salary, so reporters depend upon a compensation structure that rewards the volume of stories published instead of the quality of stories published.¹⁹⁴ Hence, a reporter that does an extensive and controversial report will not receive any compensation for his efforts.¹⁹⁵ Controversial pieces are not published, and the journalist who developed the story wasted his time and risked coercive repercussions from Chinese officials.¹⁹⁶

In summary, China's central government considers the cost of journalistic freedom too high when compared to the benefits. A free media could channel information quickly from local provinces and townships to the upper echelons of the central government much faster and more honestly than the bureaucratic chain of information flow that currently pervades China's political culture. Alternatively, a free media would likely lead to a higher degree of social unrest and political instability. Consequently, increased political instability could lead to a regime change that could displace the

¹⁸⁹ Hassid, "Panel II: Challenges for the Chinese Regulatory Regime."

¹⁹⁰ Hassid, "Panel II: Challenges for the Chinese Regulatory Regime."

¹⁹¹ Hassid, "Panel II: Challenges for the Chinese Regulatory Regime."

¹⁹² Hassid, "Panel II: Challenges for the Chinese Regulatory Regime."

¹⁹³ Hassid, "Panel II: Challenges for the Chinese Regulatory Regime."

¹⁹⁴ Hassid, "Panel II: Challenges for the Chinese Regulatory Regime."

¹⁹⁵ Hassid, "Panel II: Challenges for the Chinese Regulatory Regime."

¹⁹⁶ Hassid, "Panel II: Challenges for the Chinese Regulatory Regime."

Chinese Communist Party. Hence, the Chinese Communist Party will continue to stifle any efforts to develop and free and independent media within China.

c. Practical Recommendations

With the practical realization that journalistic freedom compromises the central government's grasp on power, other alternatives to curb product safety problems through the media remain viable. For example, the central government could pay reporters to investigate local Chinese official and businesses that are suspected of skirting product safety regulations. Reporters could then report that their efforts to expose the corrupt leadership or businesses came at the behest of China's central government. Hence, local level officials and businesses are embarrassed and punished while the central government appears as an advocate for the Chinese domestic consumer. This alternative runs little risk of social unrest that would be directed at the central government.

2. Public Relations

Although China is not a company, it does possess a brand identity – “Made in China” – that must be protected. China can restore its brand image through greater transparency to the public on issues concerning product safety. Hence, whenever a product safety issue arises, the Chinese government must not issue denials as it has in the past. The issue should be confronted head-on in an honest and truthful manner that exposes the facts regardless of the incident. Additionally, the Chinese government can control the spin in the international media by offering more substantive information on product safety issues in order to prevent rampant speculation and sensationalism in the international media by “China” and “business” pundits. Although this is counter-intuitive to the nature of China's ruling regime, the results of this approach will bolster confidence in China's reputation for product safety.

a. *Recommendations*

- Do not issue unfounded denials whenever a product safety issue is exposed in the international media.
- Aggressively investigate and provide substantive information to the media in order to control the spin and prevent sensationalistic reporting that undermines consumer confidence in Chinese products.

b. *Barriers to Implementation*

Similar to the barriers that existed for a free press, it is unlikely that China's central government will unnecessarily expose weaknesses in the government's consumer product safety regime in order to control the spin of the international media. Likewise, many of China's leaders and people earnestly believe that the recent flap over consumer product safety is the result of the \$256 billion trade deficit (2007) between China and the United States.¹⁹⁷ Hence, it is only natural for Chinese officials to issue defensive reactions in the international media when news of a consumer product safety scandal initially breaks in China. However, China's central government has learned from previous mistakes in public relations, so the government has hired a public relations firm and a Washington lobbyist to assist with the country's brand image.¹⁹⁸

First, China's central government has hired Ogilvy Public Relations firm to assist China in navigating the negative international reaction to recent product safety scandals.¹⁹⁹ Furthermore, China hopes to restore consumer confidence in the "Made in China" brand with Ogilvy's expert guidance and support in the area of public relations and branding.²⁰⁰ Although hiring a public relations firm to assist in managing China's relations with the world is an unusual action for a sovereign nation, it may be one of the most perceptive responses that the Chinese government has made.

¹⁹⁷ Vause, "CNN Special: Made in China, Part 1."; Morrison, "China-U.S. Trade Issues," 1.

¹⁹⁸ Vause, "CNN Special: Made in China, Part 1."

¹⁹⁹ Vause, "CNN Special: Made in China, Part 1."

²⁰⁰ Vause, "CNN Special: Made in China, Part 1."

Second, China has also hired Patton Boggs LLP, a well-known Washington lobbyist firm, to press China's case with the U.S. Congress.²⁰¹ Patton Boggs LLP will attempt to dissuade the U.S. Congress from adopting "get tough on China" policies that have been touted by pundits and the public alike in response to a growing Sino-U.S. trade deficit and numerous consumer product safety incidents.²⁰² Lobbying the U.S. Congress represents another unprecedented move by China's central government; however, China should consider paying Patton Boggs LLP more than \$22,000 per month if it hopes to achieve measureable results within the policy-making circles of Washington, D.C.²⁰³

In summary, China's central government will not grant the media access required to assuage consumer fears related to the "Made in China" brand, but China has taken the next best measure by hiring a public relations firm and a lobbyist to mend relations and restore consumer confidence.

c. Practical Recommendations

China's central government should continue its relationship with Ogilvy and Patton Boggs, and it should head the professional advice administered by both firms in order to restore the "Made in China" brand.

3. Protectionism

Protectionism reverses the economic progress and prosperity that globalization has brought the United States and China. Although some quality-related bans on Chinese products may be issued by the U.S. government on some food, drugs, and toys, the Chinese government must resist a retaliatory protectionist response. A retaliatory

²⁰¹ Vause, "CNN Special: Made in China, Part 1."

²⁰² Patton Boggs LLP, "The Agenda of the 110th Congress: A New Form of Divided Government," Patton Boggs LLP, <http://www.pattonboggs.com/files/News/2f439193-f41b-4931-8b26-3fd47c4dd959/Presentation/NewsAttachment/baa0daa5-547e-46b6-bded-403564bd2691/FINAL%20full%20memo%20--%20Dec.%2014.pdf>. (accessed September 2008).

²⁰³ Vause, "CNN Special: Made in China, Part 1."

response by China could possibly escalate into a trade war between the United States and China. A trade war would only produce economic losers on both sides of the equation.

a. *Recommendations*

- Avoid retaliatory protectionist actions in the event a major trading partner issues a quality-related ban on a Chinese product.

b. *Barriers to Implementation*

Protectionism represents an external response to product safety concerns and a growing Sino-global trade deficit, so China's central government has little influence over foreign governments and multinational corporations with respect to protectionist actions that either entity may choose to adopt. Trade analysts argue that protectionist responses have more to do with trade deficits than actual concerns over the safety of China's exports.²⁰⁴ In 2006, China's global exports reached a staggering \$969 billion (\$2.6 billion per day), and the Sino-U.S. trade deficit has risen steadily over the past three decades to a frightening \$256 billion (2007) with no signs of abatement.²⁰⁵ In addition to the Sino-U.S. trade deficit, China holds an estimated \$1.5 trillion in foreign exchange reserves, which is largely comprised of U.S. Treasury Securities.²⁰⁶ China has rattled a hegemonic United States that perceives a loss of power in the international political and economic arena to a rising juggernaut, the People's Republic of China. Hence, protectionist actions are the likely response by U.S. Congressional leaders under the guise of U.S. consumer protection. China's central government has no recourse of action against the United States with the exception of instituting limited bans on a paltry sum (\$65.2 billion in 2007) of U.S. imports to China.²⁰⁷ Unfortunately, this measure would only exacerbate the possibility of a limited trade war between the United States

²⁰⁴ John Vause, "CNN Special: Made in China, Part 2," in *Made in China*, ed. John Vause (CNN International, 2007).

²⁰⁵ Vause, "CNN Special: Made in China, Part 1."; Morrison, "China-U.S. Trade Issues," 1.

²⁰⁶ Morrison, "China-U.S. Trade Issues," 12.

²⁰⁷ Morrison, "China-U.S. Trade Issues," 2.

and China. In the end, both trading partners would suffer economic losses, yet China would suffer more severely than the United States.

c. Practical Recommendations

Although China has already rejected multiple food shipments from the United States for poor quality and alleged spoilage, China should reverse course and accept products from its major trading partners unless undisputable evidence exists with respect to the poor quality or danger presented by an imported product. China's central government must avoid the impropriety of protectionist actions in order to avoid further turmoil aroused by foreign governments and their populations with respect to the current state of China's ailing consumer product safety regime.

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VI. CONCLUSION

A. HYPOTHESIS STATEMENT

1. Summary of Hypothesis

China must improve its consumer product safety regime to maintain a robust export market for food and drugs in order to protect its economic growth. Economic growth serves as one of many pillars that ensure political stability for China's central government, so the central government as a matter of internal security must address product safety concerns that could potentially damage China's export driven economy.

a. Primary Hypothesis

As China's consumer product safety regime improves, China's export market for food and drug products will increase.

b. Subordinate Hypothesis

Revision and improvement in China's domestic product safety regulatory regime – laws, law enforcement, and domestic interagency cooperation – in addition to the adoption of international consumer product safety best practices for developing countries provide China with a short-term, affordable, and feasible solution to improve its product safety regulatory regime.

B. SUMMARY

China's central government's response to the current challenge of consumer product safety in the food and drug arena will likely be a key factor in its ability to sustain robust economic growth over the next decade. Many measures have been proposed here; however, three measures have the ability to strike at the heart of the consumer product safety problem and restore consumer faith in the "Made in China"

brand. First, China must stem corruption at the local level through independent regulatory and law enforcement agencies that hold local government leaders and the local managers of Chinese companies accountable.²⁰⁸ Second, China must permit greater freedom of the press because the media provides a force multiplier that can expose systemic problems of corruption in relation to product safety issues. Finally, China must create an independent judicial system that consistently holds corrupt officials and companies that intentionally violate product safety laws accountable.

These measures will change the political economy of China on many levels, and many of these measures will break established patterns of behavior by Chinese Communist Party officials and Chinese companies. Change will not be easy; however, it is necessary in order to preserve China's sustained economic growth and political stability and establish the "Made in China" brand as a marker of quality and reliability.

1. Beijing Should Clean House (Formal/Internal Response)

The primary weakness of China's consumer product safety regime lies with systemic corruption and weak enforcement of a disparate and nascent product safety regime. China's product safety regulations require competent and robust regulatory enforcement bodies centralized under a single coordinating authority. Furthermore, multinational corporations and China's central government must realign economic incentives for Chinese producers to reduce corruption. If incentives fail to dissuade corrupt practices then individuals and firms must be held accountable through an independent judiciary system that is capable administering civil and governmental lawsuits. A functional product safety regime in China will require nearly a decade of focused effort; however, China should begin its journey by bolstering law enforcement in order to reduce corruption.

²⁰⁸ Morrison, "China-U.S. Trade Issues," 10.

2. Beijing Should Seek Help and Cooperation (Formal/External Response)

China has expanded its cooperation with international product safety regulatory agencies in order to restore consumer confidence amongst its major trading partners and to learn from the best practices from other industrialized economies. International cooperation through the Beijing Olympic Food Safety Expert Committee paid substantial dividends as China managed to avoid any food or drug related scandals throughout the 2008 Beijing Summer Olympics. Ironically, the melamine tainted milk scandal of September 2008 most likely destroyed international credibility that China gained from the Olympic Games. Additionally, imagine the outrage of a Chinese peasant that witnessed the exceptional effort made by China's central government to protect foreign athletes, journalist, and tourist during the Olympics, yet the same government made very little effort to protect its own population from dangerous food and drug products.

In addition to China's efforts to improve product safety during the Olympic Games, China has collaborated with the U.S. Consumer Product Safety Commission and the U.S. Food and Drug Administration to improve training and inspection methods within China's consumer product safety regime. International product regulatory agencies also periodically inspect food and drug producers in China; however, a constrained timeline and language barriers often hamper these agencies during the inspections.²⁰⁹ Additionally, the U.S. Food and Drug Administration and the U.S. Consumer Product Safety Commission are underfunded and undermanned in an era in which trade between nations has increase so rapidly, particularly from China. Currently, the U.S. Food and Drug Administration only inspects one percent of the products shipped into the United States, additionally if the agency started to conduct source point inspections of every international drug supplier to the United States, it would take the agency 13 years to complete the inspections with its current funding and manpower.²¹⁰ China's regulatory

²⁰⁹ Woo, "Panel III: Challenges for the American Regulatory System."

²¹⁰ Woo, "Panel III: Challenges for the American Regulatory System."

bodies face similar labor and funding problems, so the best assistance that international product safety regulatory bodies can provide to China is training with a focus on best practices.

3. Beijing Should Explore Nonregulatory Solutions (Informal/Internal Response)

China also has a myriad of options with respect to lessons learned from other countries and numerous international standards that address product safety and quality issues. Today, Japan serves as benchmark of quality, even though five decades ago the “Made in Japan” brand meant cheap, shoddy, and unreliable consumer goods. Japan’s rise from a substandard producer relied upon quality engineering principles established by W. Edward Deming, and these principles have been further refined into the Toyota Production System that is highly regarded by international consumers for producing goods that are both safe and reliable.²¹¹ If Japan found its path to quality, then it is reasonable that China can do the same.

Even beyond lessons learned from other countries, China can draw from preexisting international product safety standards specifically tailored for food and drugs, such as ISO 22000 or CODEX.²¹² Admittedly, the implementation of international standards would carve into thin margins for China’s producers or force China’s producers to raise their wholesale cost for goods. Either option is unsavory, yet the long-term dividends from implementing recognized international standards would likely assist China in moving up the value chain of production. Hence, China would be able to continue to fuel its robust economic growth for many years to come.

China should avail itself of lessons produced from other countries’ product safety woes, and it should adopt an international product safety standard that bolsters the confidence of its major trading partners.

²¹¹ Deming, *Out of the Crisis*, 2-4.; Liker, *The Toyota Way : 14 Management Principles from the World's Greatest Manufacturer*, 1, 3-5.

²¹² International Organization for Standardization, "About ISO."; Frost, "I.S.O. 22000 Is First in Family of Food Safety Management System Standards."; Food and Agriculture Organization of the United Nations and The World Health Organization, "CODEX Alimentarius."

4. Beijing Should Present Its Case (Informal/External Response)

In the information age, domestic and international public opinion matters to multinational corporations, brands, and even countries. Since China serves as the “world’s manufacturing floor” for outsourced goods and inexpensive products, “Made in China” is a brand.²¹³ Hence, China’s central government and China’s producers must defend their brand in order to sustain economic growth. Although the media is unlikely to receive free reign in China, the central government should at least permit the media to expose corrupt public officials and dangerous producers in order to amplify the central government’s effort to protect consumers. Additionally, the central government must continue to manage international consumers’ perceptions of Chinese goods through intense public relations efforts. It is highly unlikely that international consumers will boycott low-cost Chinese items; however, one family in America did eliminate all items “Made in China” for one year.²¹⁴ Fortunately, most consumers would not endure the daunting task of avoiding Chinese products in the marketplace, yet China cannot continue to take for granted the resentment and concern building in the international body of consumers on the issue of dangerous products produced in China. Consumer resentment and concern could lead other governments to take protectionist actions against China under the guise of protecting their domestic consumers. These actions could hurt China’s economy, so China must avoid any provocation that could set a limited trade war in motion between it and its major trading partners.

5. Conclusive Summary

China’s central government’s response to the current challenge of consumer product safety in the food and drug arena will likely be a key factor in its ability to sustain robust economic growth over the next decade. Many measures have been proposed here; however, three measures have the ability to strike at the heart of the

²¹³ Vause, "CNN Special: Made in China, Part 1."; Vause, "CNN Special: Made in China, Part 2."

²¹⁴ Sara Bongiorno, *A Year Without "Made in China": One Family's True Life Adventure in the Global Economy* (Hoboken, N.J.: John Wiley & Sons, 2007; reprint, Abstract), 2-4.

consumer product safety problem and restore consumer faith in the “Made in China” brand. First, China must stem corruption at the local level through independent regulatory and law enforcement agencies that hold local government leaders and the local managers of Chinese companies accountable.²¹⁵ Second, China must permit greater freedom of the press because the media provides a force multiplier that can expose systemic problems of corruption in relation to product safety issues. Finally, China must create an independent judicial system that consistently holds corrupt officials and companies that intentionally violate product safety laws accountable.

These measures will change the political economy of China on many levels, and many of these measures will break established patterns of behavior by Chinese Communist Party officials and Chinese companies. Change will not be easy; however, it is necessary in order to preserve China’s sustained economic growth and political stability and establish the “Made in China” brand as a marker of quality and reliability.

C. SIGNIFICANT FINDINGS AND PRACTICAL APPLICATIONS

Corruption pervades China’s business, political, and regulatory culture. Individuals focus on short-term gains rather than long-term sustainable practices that would induce economic growth that is robust enough to mitigate rampant corruption throughout China. In order to curb corruption, corrupt participants must be punished, and China’s producers in cooperation with the central government must realign economic incentives to eliminate opportunities that reward corrupt practices. Although corruption may appear to be a mild symptom that slows China’s trade growth, it has the potential to destabilize the long-term development of the Chinese economy.

In addition to corruption, China’s lack of an independent judicial system and poorly funded regulatory bodies provides opportunities for producers to commit unscrupulous acts without significant negative repercussions. Regulatory bodies must be

²¹⁵ Morrison, “China-U.S. Trade Issues,” 10.

pervasive enough to penetrate local businesses guarded by corrupt political officials, and China's judicial system should welcome civil suits against Chinese producers that kill or harm domestic or international consumers.

D. FURTHER RESEARCH SUGGESTIONS

China's weak consumer product safety regime has only received significant attention from international consumers since early 2007, so copious research opportunities remain with respect to the actual progress made by China in coping with deadly and embarrassing product safety scandals over the last eighteen months.

First, researchers should investigate the impact and outcome of retired Vice Premier Wu Yi's task force to protect the "Made in China" brand in late 2007. No reports on this task force's progress or results have been made, even though Wu Yi retired and the task force disbanded. Was the task force only a ruse to appease angry international consumers?

Second, corruption in China can be mitigated through the use of both positive economic incentives and negative economic incentives. What are the economic incentives available to China's central government, China's producers, and multinational corporations? What is the proper balance of these incentives?

Third, the U.S. Food and Drug Administration is grossly underfunded and undermanned, so how can the United States government protect Americans from a bioterrorism incident that could potentially contaminate America's food supply? How would the United States government respond to the contamination of America's food supply from imported goods? Would the United States government hold the exporting nation responsible for the incident? How can American's prevent a bioterrorist attack?

There are numerous other aspects to this rich topic that merit exploration via multi-disciplinary studies; however, research material is difficult to attain because of limited access to source data and reports from China's central government on issues of product safety. Additionally, the contemporary nature of this topic also lends itself to further revelations and assessments of China's progress towards a safer Consumer product safety regime.

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APPENDIX: DEMING'S 14 POINTS OF INDUSTRY

Deming highlights 14 practices that transformed Japan's product quality regime.

Table 5. The 14 Points of Industry.²¹⁶

The 14 Points of Industry	
1	Create a consistency of purpose designed to drive the organization toward product and service improvement. Companies face today's and tomorrow's problems. It is easy to fixate on the problems of today. Overcoming tomorrow's problems; however, requires focus and constancy of purpose. Accept the responsibility to innovate.
2	As a manager, accept the role of leading the company toward change. The standard level of mistakes can no longer be tolerated. Transformation is required.
3	Free yourself from a dependence on inspection in order to achieve quality. Build quality into the product in the first place. Inspecting to insure quality comes too late in the process. It costs too much to correct errors at this stage; get it right up front.
4	Stop awarding business [to suppliers] on the basis of price. Instead, minimize total long-term cost and move toward a single supplier relationship for any one item based on a long-term relationship built on loyalty and trust. Quality can be more important than price
5	To decrease costs, continually and permanently improve the production system.
6	Institute a program of job training. [Chinese] (U.S.) factory workers need to be better trained, with wider skills, and they need to be given more flexibility in their jobs assignments.
7	Overhaul the supervision of management, and institute leadership. Management's job isn't supervision: its leadership. Eliminate the focus on outcome (hitting targets and management by objective). Leaders must understand the work that they oversee.
8	Stamp out fear in the workplace, so people can work together effectively. Fear increases turnover and causes breakdowns in quality.
9	Eliminate the barriers between departments. Everyone in the company has something to share, but that won't help if your company is built around silos.
10	Get rid of slogans, cheerleading and targets that create adversarial relationships. Most poor productivity is caused by the system and, therefore, is beyond the power of workers to ameliorate. Lose those posters that state, "Your work is your self-portrait." Those platitudes are an insult to the intelligence of the workers.
11	Eliminate quotas, and eliminate management by objective or numbers. Substitute leadership. You don't want to know how many widgets were made. You want to know the number of good one produced, and at what cost.
12	Remove barriers that take pride of workmanship away from the worker, including barriers that affect those in management or engineering. Give people dignity in their work and they will provide a better quality product.
13	Install a strong program of education and self-improvement.
14	Make achieving the transformation everybody's job

²¹⁶ Henry R. Neave, "Deming's 14 Points for Management: Framework for Success," *The Statistician* 36, no. 5 (1987): 561-70.; Deming, *Out of the Crisis*, 3. – Table quoted from listed sources.

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